



STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

(THIS PAGE LEFT BLANK INTENTIONALLY)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statements of Net Position – State of Mississippi Institutions of Higher Learning	18
Statements of Financial Position – Discretely Presented Component Unit – Mississippi State University Foundation, Inc.	19
Statements of Financial Position – Discretely Presented Component Unit – The University of Mississippi Foundation	20
Statements of Financial Position – Discretely Presented Component Unit – The University of Southern Mississippi Foundation	21
Statements of Revenues, Expenses and Changes in Net Position – State of Mississippi Institutions of Higher Learning	22
Statements of Activities – Discretely Presented Component Unit – Mississippi State University Foundation, Inc.	23
Statements of Activities – Discretely Presented Component Unit – The University of Mississippi Foundation	25
Statements of Activities – Discretely Presented Component Unit – The University of Southern Mississippi Foundation	27
Statements of Cash Flows – State of Mississippi Institutions of Higher Learning	29
Notes to Financial Statements	31
Combining Supplemental Information:	
Combining Statement of Net Position	136
Combining Statement of Revenues, Expenses and Changes in Net Position	138
Combining Statement of Cash Flows	140
Required Supplementary Information (Unaudited):	
Schedule of Proportionate Share of Net Pension Liability	143
Schedule of Proportionate Share of Contributions	144

Notes to Required Supplementary Information	145
Report on Internal Control and Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	146
Component Unit Additional Information for Inclusion in the State of Mississippi Comprehensive Annual Financial Report:	
Component Unit – Combining Schedule of Net Position	148
Component Unit – Combining Schedule of Activities	150
Component Unit – Schedule of Accounts Receivable Disclosure	151
Component Unit – Schedule of Notes and Pledges Receivable Disclosure	152
Component Unit – Schedule of Assets under Capital Lease Disclosure	153
Component Unit – Schedule of Capital Assets Disclosure	154
Component Unit – Schedule of Construction Commitments and Financing Disclosure	155
Component Unit – Schedule of Long-Term Liabilities Disclosure (Rollforward)	156
Component Unit – Schedule of Debt Service Disclosure (IHL System Only, by Institution)	157
Component Unit – Schedule of Debt Service Disclosure (Combined)	159
Component Unit – Schedule of Bonds and Notes Payable Disclosure	160
Component Unit – Schedule of Functional Expenses Disclosure	162

FINANCIAL AUDIT REPORT

(THIS PAGE LEFT BLANK INTENTIONALLY)



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

Independent Auditors' Report

The Board of Trustees
State of Mississippi Institutions of Higher Learning:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the State of Mississippi Institutions of Higher Learning (the IHL System), a component unit of the State of Mississippi, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the IHL System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of Mississippi Medical Center Educational Building Corporation, the University of Mississippi Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund, and the State Institutions of Higher Learning Tort Liability Fund. Those financial statements, which reflect approximately 10.4% and 8.7% of total assets and 1.4% of total revenues of the IHL System's business-type activities as of and for the years ended June 30, 2016 and 2015, were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities/funds, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Mississippi State University Foundation, Inc., the University of Mississippi Foundation, the University of Southern Mississippi Foundation, the University of Mississippi Medical Center Educational Building Corporation, the University of Mississippi Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund, and the State Institutions of Higher Learning Tort Liability Fund were not audited in accordance with *Government Auditing Standards*.

(THIS PAGE LEFT BLANK INTENTIONALLY)



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, and the aggregate discretely presented component units of the IHL System as of June 30, 2016 and 2015, and the changes in financial position, and where applicable, cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(d), to the financial statements, the IHL System adopted in fiscal year 2016, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the management's discussion and analysis on pages 4 through 17 and the required supplementary information on pages 143 through 145 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(THIS PAGE LEFT BLANK INTENTIONALLY)



Supplementary Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The 2016 combining supplemental information on pages 136 through 142 and the accompanying component unit additional information for inclusion in the State of Mississippi Comprehensive Annual Financial Report section on pages 148 through 162 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the IHL System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHL System's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
December 21, 2016

(THIS PAGE LEFT BLANK INTENTIONALLY)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(THIS PAGE LEFT BLANK INTENTIONALLY)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015



Introduction

The Board of Trustees of Mississippi's Institutions of Higher Learning (IHL System) governs the state's public four-year institutions. The Constitutional Governing Board was created in 1943 for the purpose of overseeing and directing Mississippi's eight public universities including the University of Mississippi Medical Center, various off-campus centers and multiple research institutes located throughout Mississippi.

The institutions serve approximately 83,000 students with an employee base of 29,000 individuals. Faculty makes up approximately 6,000 of the total employee count. The system offers over 800 degree programs and awarded approximately 17,000 degrees in academic year 2016.

In addition to regular operations, each university has established its own educational building corporation (EBC) in accordance with Section 37-101-61 of the Mississippi Code Annotated of 1972. The purpose of these corporations is to provide a means to acquire land or buildings, construct or renovate facilities, and/or equip facilities. Governmental Accounting Standards Board (GASB) Statements 14, 39 and 61 deem EBCs to be component units of the IHL System; therefore, they are included as blended component units in the basic financial statements. In addition to EBCs, the IHL System has three additional component units considered significant to the financial statements. The three units were Mississippi State University Foundation, Inc., the University of Mississippi Foundation and the University of Southern Mississippi Foundation. These audited financial statements are discretely presented following the IHL System's financial statements.

This report was prepared in accordance with GASB Statements 34 and 35, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and present financial data for the fiscal period ending June 30, 2016. The IHL System reports as a special purpose government, engaged solely in business-type activities. This section should be read in conjunction with the financial statements and the notes that follow.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The following is a list of abbreviations used throughout this financial report for the member universities of the IHL System:

ASU	Alcorn State University
DSU	Delta State University
JSU	Jackson State University
MSU	Mississippi State University
MUW	Mississippi University for Women
MVSU	Mississippi Valley State University
UM	University of Mississippi
USM	University of Southern Mississippi
UMMC	University of Mississippi Medical Center
IHL Executive Office	Institutions of Higher Learning – Executive Office
MCVS	Mississippi Commission for Volunteer Services – Off-campus entity
IHL System	(Summary of all of the above)

The discussion and analysis below provides an overview of the financial position and activities of the IHL System for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Financial Highlights

The IHL System recorded an increase in net position of \$173.0 million in fiscal year 2016. This increase was primarily the result of an increase in capital assets, net of related debt of \$137.5 million and an increase from unrestricted activities of \$42.8 million.

Financial highlights (in millions)	Year ended June 30		
	2014	2015	2016
Total operating revenues	\$ 2,196	2,383	2,540
Total operating expenses	3,024	3,170	3,412
Operating loss	(828)	(787)	(872)
State appropriations	705	734	753
Gifts	185	192	192
Investment income	35	17	20
Interest expense on capital asset-related debt	(40)	(38)	(39)
Other nonoperating revenues, net and other revenue, expenses, gains and losses	157	139	119
Increase in net position	214	257	173
Net position, beginning of the year	3,447	3,661	2,000
Adjustment to beginning of year net position, related to pension	—	(1,918)	—
Net position, end of year	\$ 3,661	2,000	2,173

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Operating revenues minus operating expenses typically result in an operating loss in the IHL System's financial statements. Nonoperating items, however, including state support, investment income, and gifts have typically enabled the IHL System to reflect an increase in the net position, or "equity" each year. This surplus has been reinvested within the IHL System to add a margin of educational excellence, upgrade the IHL System's facilities and provide a prudent reserve for contingencies such as the recent period of economic instability.

At the beginning of fiscal year 2015 the IHL System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which impacted the beginning of the year net position for fiscal year 2015 as shown in the table above.

Overview of the Financial Statements

The IHL System's financial report consists of management's discussion and analysis, financial statements including notes, and financial statements of the discrete component units. The statements of IHL System's financial statements are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows; and the Statement of Financial Position and Statement of Activities for the discretely presented component units.

Financial Statements

The financial statements present information for the IHL System as a whole. The Statement of Net Position presents the financial position of the IHL System at the end of fiscal years 2016 and 2015 and includes all assets and liabilities for all institutions within the IHL System. The difference between total assets and total liabilities – net position – is one measure of the IHL System's financial health or position. The change in net position is a useful indicator of financial health of the IHL System. Over time, increases or decreases in the IHL System's net position provide a useful trend in assessing whether its financial health is improving. Other nonfinancial factors such as enrollment trends and the condition of the physical plant are also useful in evaluating the overall financial health of the IHL System.

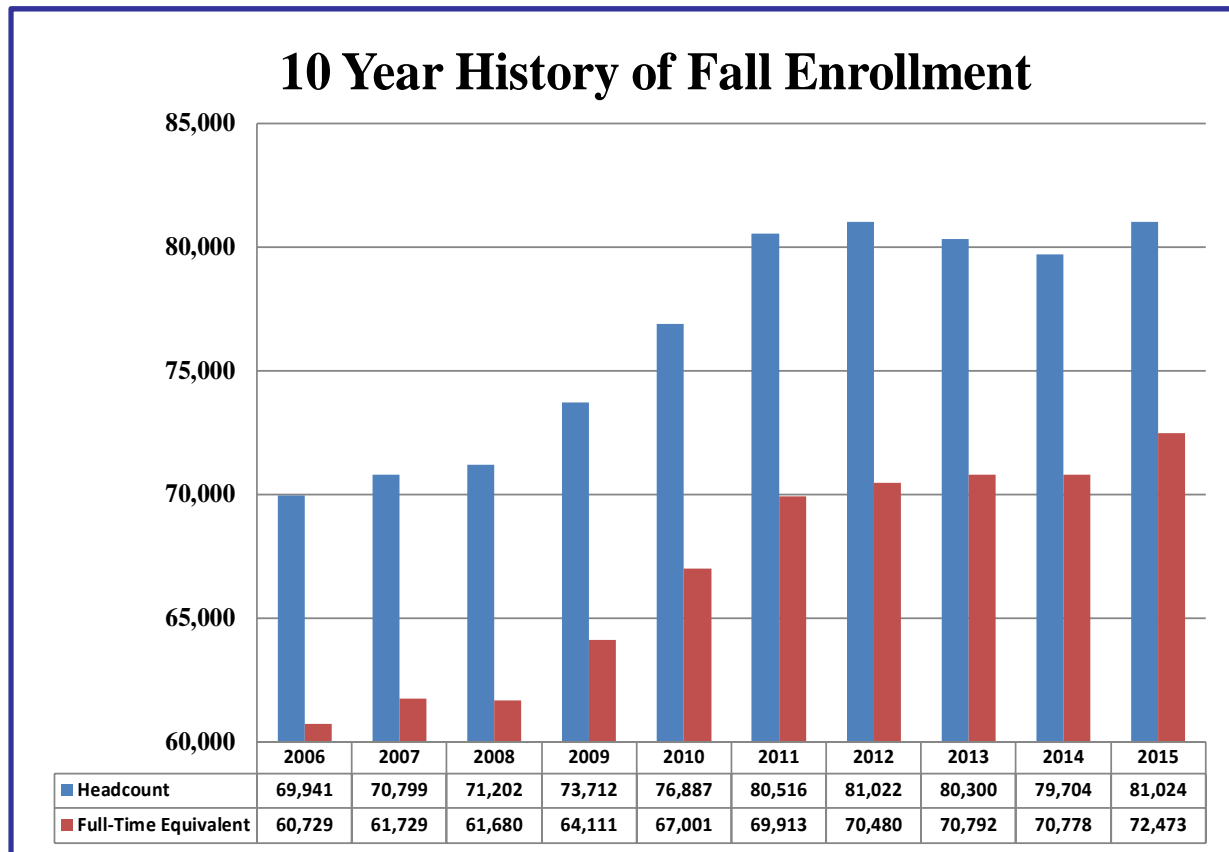
The Statements of Revenues, Expenses and Changes in Net Position presents the operating results of the IHL System, as well as nonoperating revenues and expenses for the years ended June 30, 2016 and 2015. Operating revenues are received for providing goods and services to various customers and constituencies of the IHL System. Operating expenses are incurred to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are received for which goods and services are not provided as an exchange transaction. State appropriations, which represent 21.8% and 21.1% of total IHL System net revenues for fiscal years 2016 and 2015, respectively, are classified as nonoperating revenue because these revenues are appropriated at the state level rather than at the institutional level. This accounting treatment for this revenue classification typically results in the IHL System showing an operating loss. Other typical nonoperating revenue sources include gifts, grants, and appropriations restricted for capital purposes.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The Statements of Cash Flows provides information about the cash sources and uses of the IHL System. Additional information for these statements is provided later in this report.



Statements of Net Position

The Statements of Net Position presents the financial position as of the end of the fiscal year and includes all assets, liabilities, deferred outflows, and deferred inflows of the IHL System. Cash and investments are generally reported at fair values. Capital assets are reported at historical cost less an allowance for depreciation. The difference between total assets and deferred outflows, and total liabilities and deferred inflows (net position) is one indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the current year. From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the entity, and how much is owed to vendors, investors, and lending institutions. Finally, the Statements of Net Position provides a picture of the net position and its availability for expenditure.

Net position is classified into components as follows:

- Net investment in capital assets represents the investment in property, plant, and equipment less any related debt used to acquire those assets.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- Restricted nonexpendable net position consists of the IHL System's permanent endowment funds.
- Restricted expendable net position is available for expenditure, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net position is available for any lawful purpose of the IHL System.

Summary of Net Position (Condensed)					
	June 30, 2014	June 30, 2015	June 30, 2016	Changes between years	
				2014 to 2015	2015 to 2016
Assets:					
Current assets	\$ 974,057,443	1,053,012,269	1,146,356,658	8.1%	8.9%
Capital assets, net	3,365,143,782	3,585,173,759	3,874,246,454	6.5	8.1
Other assets	933,839,731	1,029,524,355	986,908,174	10.2	(4.1)
Deferred outflows	7,376,186	225,965,134	502,780,121	2,963.4	122.5
Total assets and deferred outflows of resources	\$ 5,280,417,142	5,893,675,517	6,510,291,407	11.6%	10.5%
Liabilities:					
Current liabilities	\$ 377,176,409	422,190,072	438,008,672	11.9%	3.7%
Noncurrent liabilities	1,242,602,630	3,203,453,481	3,831,860,414	157.8	19.6
Deferred inflows	—	268,176,489	67,548,820	N/A	(74.8)
Total liabilities and deferred inflows of resources	\$ 1,619,779,039	3,893,820,042	4,337,417,906	140.4%	11.4%
Net position (deficit):					
Investment in capital assets, net of debt	\$ 2,407,243,458	2,540,285,905	2,677,754,149	5.5%	5.4%
Restricted – nonexpendable	148,234,932	154,688,626	153,991,341	4.4	(0.5)
Restricted – expendable	267,633,090	269,676,999	263,152,959	0.8	(2.4)
Unrestricted	837,526,623	(964,796,055)	(922,024,948)	(215.2)	4.4
Total net position	\$ 3,660,638,103	1,999,855,475	2,172,873,501	(45.4)%	8.7%

At June 30, 2016, 2015, and 2014 current assets totaled \$1.15 billion, \$1.05 billion and \$974.1 million, respectively, and consisted primarily of cash and cash equivalents, short-term and net receivables. Current assets increased 8.9% (\$93.3 million) and 8.1% (\$79.0 million) from June 30, 2015 to 2016 and June 30, 2014 to 2015, respectively. Cash and cash equivalents, and short-term investments constituted approximately 59.5% and 60.1% of current assets as of June 30, 2016 and 2015, respectively, while net receivables constituted approximately 32.7% and 32.2% of current assets as of June 30, 2016 and 2015, respectively. Approximately 33.5% and 38.8% of these net receivable are amounts due from gifts, contracts and grants and the State of Mississippi for appropriations as of June 30, 2016 and 2015, respectively, while 38.7% (2016) and 34.4% (2015) were related to patient care receivables from UMMC. The remaining receivables were primarily owed from students for tuition, room and board charges. Student owed accounts receivables approximated \$100.2 million and \$93.6 million at June 30, 2016 and 2015, respectively.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

At June 30, 2016 and 2015, noncurrent assets totaled \$4.9 billion and \$4.6 billion, respectively, which included capital assets of \$3.9 billion (2016) and \$3.6 billion (2015), respectively. Noncurrent cash and investments that are restricted externally by endowment arrangements or specific grant and contract arrangements and unspent bond proceeds approximated \$201.2 million and \$271.5 million at June 30, 2016 and 2015, respectively. One other significant noncurrent asset of the IHL System was student notes receivable which equaled \$100.0 million and \$98.8 million at June 30, 2016 and 2015, respectively. In total, noncurrent assets increased 5.3% (\$246.5 million) during the past twelve months. The majority of this increase has been seen in the accumulation of net capital assets of \$289.1 million since 2015 (8.1%). Specifically, the IHL System's inventory of buildings has increased in pre-depreciation value by a total of \$231.0 million since June 30, 2015. Additional details about the IHL System's most recent capital asset growth can be seen in the Capital Asset and Debt Administration section of this report.

At June 30, 2016 and 2015, current liabilities equaled \$438.0 million and \$422.2 million, respectively, and consisted primarily of accounts payable and accrued liabilities, and unearned revenues. Unearned revenues include advance receipts for athletic ticket sales, summer tuition, fees, and student housing. Current liabilities increased 3.7% (\$15.8 million) from June 30, 2015 to 2016 and 11.9% (\$45.0 million) from June 30, 2014 to 2015, respectively. In more detail, significant increases were incurred in the areas of unearned revenues (\$10.6 million) and accounts payable and accrued liabilities (\$8.3 million).

Noncurrent liabilities are those liabilities due and payable more than twelve months from year-end. Noncurrent liabilities equaled \$3.8 billion and \$3.2 billion at June 30, 2016 and 2015, respectively. These liabilities have increased 19.6% (or \$628.4 million) since June 30, 2015. The principal reason for this increase was the change in the IHL System's proportionate share of the collective net pension liability reported by PERS, from \$1.9 billion to \$2.4 billion as of June 30, 2015 and 2016 respectively.

Deferred outflows of resources increased in 2016 while deferred inflows of resources decreased in 2016, primarily due to the impact of net pension liabilities. The IHL System recorded \$477.1 million and \$215.3 million of pension-related deferred outflows at the end of fiscal year 2016 and 2015, primarily representing the deferral of pension contributions paid during the year for the IHL System's participation in the cost-sharing, defined benefit pension plan administered by PERS. In addition, \$65.4 million and \$268.2 million of pension-related deferred inflows at June 30, 2016 and 2015, respectively, were recorded related to the IHL System's proportionate share of collective deferred inflows reported by PERS. These deferred inflow amounts represent the difference between projected and actual investment earnings on pension plan assets during the measurement period.

Restricted nonexpendable net position equaled \$154.0 million and \$154.7 million at June 30, 2016 and 2015, respectively, and consisted of endowment and similar type funds, which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained intact and invested for the purpose of producing income that may either be expended or added to principal. The value of this net position has decreased 0.5%, or \$697 thousand from June 30, 2015 to 2016 and increased 4.4%, or \$6.5 million, from June 30, 2014 to 2015.

Restricted expendable net position equaled \$263.2 million and \$269.7 million at June 30, 2016 and 2015, respectively, and consisted of resources that the IHL System is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The value of this net position has decreased 2.4%, or \$6.5 million, from June 30, 2015 to 2016 and has increased 0.8%, or \$2.0 million, from June 30, 2014 to 2015.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Unrestricted net position (deficit) equaled (\$922.0) million and (\$964.8) million at June 30, 2016 and 2015 respectively, and represents those assets that are available to the IHL System for any lawful purpose. The value of unrestricted net position has increased 4.4%, or \$42.8 million from June 30, 2015 to 2016 and decreased 215.2%, or \$1.8 billion, from June 30, 2014 to 2015. The change from 2014 to 2015 was primarily the result of the implementation of GASB 68, under which IHL recognized a liability for its net pension obligation.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Operating revenues are earned by providing goods and services to various customers and constituencies. Operating expenses are incurred to acquire or produce the goods and services and to carry out the mission of the IHL System. Nonoperating revenues are revenues received for which goods and services are generally not provided. A public university's dependence on state aid and gifts usually results in operating deficits because state appropriations and gifts are classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which spreads the cost of an asset over its expected useful life.

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Position. The purpose of the statements is to present the revenues earned, both operating and nonoperating, and the expenses incurred, operating and nonoperating, and any other revenues, expenses, gains and losses received or incurred by the IHL System.

Summary of Revenues, Expenses and Changes in Net Position (Condensed)

	Years ended June 30			Changes between years	
	2014	2015	2016	2014 to 2015	2015 to 2016
Operating revenues	\$ 2,195,909,024	2,383,402,942	2,539,686,979	8.5%	6.6%
Operating expenses	3,024,325,919	3,170,312,715	3,411,932,544	4.8	7.6
Operating loss	(828,416,895)	(786,909,773)	(872,245,565)	5.0	10.8
Nonoperating revenues	892,915,789	903,061,849	917,290,331	1.1	1.6
Income before other revenues, expenses, gains or losses	64,498,894	116,152,076	45,044,766	80.1	(61.2)
Other revenues, expenses, gains or losses	148,948,253	141,195,944	127,973,260	(5.2)	(9.4)
Change in net position	213,447,147	257,348,020	173,018,026	20.6	(32.8)
Net position, beginning of the year	3,447,190,956	3,660,638,103	1,999,855,475	6.2	(45.4)
Adjustment to beginning of year net position, related to pension	—	(1,918,130,648)	—	(100.0)	(100.0)
Net position, end of the year	\$ 3,660,638,103	1,999,855,475	2,172,873,501	(45.4)%	8.7%

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Operating Revenues

Operating revenues for the IHL System equaled \$2.5 billion and \$2.4 billion for fiscal years 2016 and 2015, respectively. Operating revenues increased 8.5% (or \$187.5 million) during 2015, and an additional 6.6% (or \$156.3 million) during 2016. Major components of operating revenues are the UMMC patient care revenues (42.8% in 2016 and 43.8% in 2015), net tuition and fees (22.7% in 2016 and 22.8% in 2015), grants and contracts revenues (15.6% in 2016 and 15.7% in 2015), and sales and service revenues from auxiliary activities (11.5% in 2016 and 11.2% in 2015). The following table summarizes the IHL System's operating revenues for the past three fiscal years.

	Operating Revenues			Changes between years	
	Years ended June 30				
	2014	2015	2016	2014 to 2015	2015 to 2016
Tuition and fees, net	\$ 522,260,357	542,656,869	577,003,159	3.9%	6.3%
Grants and contracts	392,168,251	373,604,583	396,811,348	(4.7)	6.2
Federal appropriations	14,844,867	18,137,773	18,796,056	22.2	3.6
Sales and services of educational departments	56,431,090	62,286,138	62,918,323	10.4	1.0
Auxiliary enterprises, net	223,802,128	267,235,962	293,171,765	19.4	9.7
Patient care revenues	911,051,960	1,043,115,837	1,086,205,305	14.5	4.1
Other	75,350,371	76,365,780	104,781,023	1.3	37.2
Total operating revenues	\$ 2,195,909,024	2,383,402,942	2,539,686,979	8.5%	6.6%

Net tuition and fee revenues increased 6.3% (\$34.3 million) and 3.9% (\$20.4 million) during fiscal year 2016 and 2015, respectively. All IHL institutions raised their in-state tuition rates during 2016 (average increase of 5.3%). At institutions where non-resident surcharges exist, non-Mississippi residents also paid a higher tuition rate during 2016 (average increase of 4.1%). These rate increases, coupled with the positive enrollment growth across the IHL System, resulted in an increase in tuition and fees, net.

Grants and contracts revenue increased 6.2% (\$23.2 million) during fiscal year 2016 and decreased 4.7% (\$18.6 million), during fiscal year 2015, due to temporary decreases and timing differences in both federal and state funding of student aid, research, and other various grants and contracts.

Patient care revenues at the UMMC reached \$1.1 billion and \$1.0 billion in 2016 and 2015, respectively, an increase of \$43.1 million, or 4.1% during 2016 and \$132.1 million, or 14.5% during 2015. This increase was primarily due to increases in patient volume coupled with reimbursement increases from both commercial and governmental payers.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Operating Expenses

Operating expenses for the IHL System totaled \$3.4 billion for fiscal year 2016 compared to \$3.2 billion in 2015. Operating expenses increased 4.8% (\$146.0 million) during 2015, and an additional 7.6% (\$241.6 million) during 2016. Personnel costs (including fringe benefits) were the largest expense component for the IHL System, representing 62.6% of the total in 2016 and 60.8% in 2015. Other major components include contractual services (13.1% in 2016 and 13.8% in 2015), commodities (11.1% during 2016 and 11.3% during 2015), and scholarships and fellowships (5.1% during 2016 and 5.4% during 2015). The following table summarizes the IHL System's operating expenses (by major object category) for the past three fiscal years.

	Operating Expenses			Changes between years	
	Years ended June 30				
	2014	2015	2016	2014 to 2015	2015 to 2016
By major object category:					
Salaries and wages	\$ 1,429,959,275	1,497,866,174	1,579,864,383	4.7%	5.5%
Fringe benefits	425,618,510	428,716,134	554,689,495	0.7	29.4
Travel	51,640,068	55,054,593	57,412,800	6.6	4.3
Contractual services	415,099,771	436,197,011	445,904,691	5.1	2.2
Utilities	68,502,720	70,422,300	64,855,950	2.8	(7.9)
Scholarships and fellowships	165,892,482	172,663,055	174,677,726	4.1	1.2
Commodities	320,243,536	357,505,798	377,571,345	11.6	5.6
Depreciation	142,683,785	144,509,434	147,049,697	1.3	1.8
Other	4,685,772	7,378,216	9,906,457	57.5	34.3
Total operating expenses	\$ 3,024,325,919	3,170,312,715	3,411,932,544	4.8%	7.6%

IHL personnel costs (salaries, wages and fringe benefits) increased 10.8% (\$208.0 million) during 2016 and 3.8% (\$71.0 million) during 2015. Several of the IHL System's institutions incorporated general market adjustments or benchmark raises for their faculty and staff during 2016 and 2015, while most also authorized pay increases for promotion-in-rank or additional position responsibilities. The range of these pay raises varied from institution to institution. UMMC (\$107.4 million), MSU (\$47.1 million) and UM (\$24.6 million) had the largest expense increase in this category, while the other institutions had smaller increases. Contractual services increased 2.2% (\$9.7 million) and 5.1% (\$21.1 million), respectively, during 2016 and 2015 along with the cost for commodities (5.6% or \$20.1 million) and (11.6% or \$37.3 million). Scholarships and fellowships expenses increased 1.2% (\$2.0 million) and increased 4.1% (\$6.8 million), respectively, during 2016 and 2015.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

As an alternative presentation model, the IHL System's last three fiscal years of operating expenses are shown below by major functional classification. Functional classifications are the traditional categories that universities have used in past financial presentations (Pre-GASB 34). These functions represent the types of programs and services that the universities generally provide. For example, funds utilized to compensate a classroom professor or provide classroom materials would be classified as instruction.

	Operating Expenses			Change between years	
	Years ended June 30				
	2014	2015	2016	2014 to 2015	2015 to 2016
By function:					
Instruction	\$ 631,249,609	654,528,578	693,173,858	3.7%	5.9%
Research	278,903,582	284,458,084	326,037,408	2.0	14.6
Public service	146,573,492	153,656,800	164,910,728	4.8	7.3
Academic support	160,146,653	149,199,452	152,034,846	(6.8)	1.9
Student services	78,690,497	80,026,357	85,584,099	1.7	6.9
Institutional support	295,997,825	307,448,142	331,452,856	3.9	7.8
Operations and maintenance of plant	174,947,260	169,070,680	176,865,669	(3.4)	4.6
Student aid	171,370,216	187,965,581	179,806,532	9.7	(4.3)
Auxiliary enterprises	227,218,770	244,931,668	254,007,583	7.8	3.7
Depreciation	134,232,885	144,505,081	147,044,210	7.7	1.8
Hospital	794,691,055	870,216,690	981,069,973	9.5	12.7
Other	1,132,401	1,120,042	512,453	(1.1)	(54.2)
Eliminations	(70,828,326)	(76,814,440)	(80,567,761)	8.5	4.9
Total operating expenses	\$ 3,024,325,919	3,170,312,715	3,411,932,454	4.8%	7.6%

Funding for the Instruction function continues to be one of the IHL System's highest priorities. Approximately 20.3% and 20.6% of the IHL System's expenses were devoted to the Instruction function in 2016 and 2015, respectively. Institutional research (internal and external) and public service costs continue to command one of the IHL System's primary cost missions. While increasing from 2014 to 2015 and 2015 to 2016, these costs represent approximately 14.4%, 13.8% and 14.1% of the IHL System's total focus during 2016, 2015 and 2014, respectively. Research and public service sector expenses increased approximately 14.6% (\$41.6 million) and 7.3% (\$11.3 million), and 2.0% (\$5.6 million) and 4.8% (\$7.1 million) respectively, during 2016 and 2015. Institutional support costs typically present the functions of the executive management department, general administration, logistical support services, computing, public relations and development. These costs increased 7.8% (\$24.0 million) and 3.9% (\$11.5 million), respectively, in 2016 and 2015. Auxiliary enterprise costs include all expenses associated with departments that primarily exist to furnish goods or services to students, faculty, or staff and that charge a fee directly related to, although not necessarily equal to, the cost of the goods and services. Auxiliary departments are required to be essentially self-supporting activities. Examples are (1) student housing, (2) food services, (3) bookstores, and (4) intercollegiate athletics. Auxiliary expenses increased 3.7% (\$9.1 million) and 7.8% (\$17.7 million), respectively, in fiscal year 2016 and 2015. Student Aid expenses decreased in 2016 by 4.3% (\$8.2 million) and increased in 2015 by 9.7% (\$16.6 million). Finally, hospital expenses increased 12.7% (or \$110.9 million) and 9.5% (or \$75.5 million) in 2016 and 2015, respectively, as a result of increased patient treatment costs.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

From fiscal year 2014 through 2016, the IHL System identified millions of dollars in inter-campus transactions that required elimination for financial statement presentation purposes. Examples of such transactions would be student financial aid funds administered by the IHL Executive Office that were directed to the campuses, as well as grant agreements between one or more IHL System institutions in which one campus served as a primary recipient and the other campus acted as a sub-recipient.

Capital Asset and Debt Administration

At June 30, 2016, 2015, and 2014, the IHL System had approximately \$3.9 billion, \$3.6 billion, and \$3.4 billion, respectively, invested in a broad range of capital assets. These assets comprise land, construction in progress, livestock, buildings and improvements (infrastructure), equipment and library books. They are stated net of accumulated depreciation. The following table summarizes the IHL System's capital assets for the past three fiscal years.

	Capital Asset Summary			Changes between years	
	Years ended June 30				
	2014	2015	2016	2014 to 2015	2015 to 2016
Capital assets not being depreciated \$	583,819,747	635,416,441	757,855,667	8.8%	19.3%
Depreciable capital assets:					
Improvements other than buildings	312,650,876	337,478,533	348,304,115	7.9	3.2
Buildings	3,072,899,167	3,294,288,590	3,525,200,839	7.2	7.0
Equipment	764,548,649	798,437,702	831,648,844	4.4	4.2
Library books	377,501,528	390,159,181	402,635,256	3.4	3.2
Total depreciable capital assets	4,527,600,220	4,820,364,006	5,107,789,054	6.5	6.0
Total cost of capital assets	5,111,419,967	5,455,780,447	5,865,644,721	6.7	7.5
Less accumulated depreciation	(1,746,276,185)	(1,870,606,688)	(1,991,398,267)	7.1	6.5
Capital assets, net \$	3,365,143,782	3,585,173,759	3,874,246,454	6.5%	8.1%

Nondepreciable capital assets equaled \$757.9 million, \$635.4 million, and \$583.8 million at June 30, 2016, 2015 and 2014, respectively. These assets principally consisted of land and construction in progress. The \$122.5 million increase during fiscal year 2016 was due to capitalized facility projects that were "in progress" at June 30, 2015, but have now been completed and transferred to the depreciable buildings category.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

At June 30, 2016, 2015 and 2014, the IHL System had \$1.2 billion, \$1.2 billion, and \$1.1 billion, respectively, in bonded debt, notes payable and capital lease obligations. This represented a 6.6% or \$76.2 million increase over the prior year-end. The following table summarizes the IHL System's long-term debt for the past three fiscal years.

Long-term Debt Summary					
	Year ended June 30			Change between years	
	2014	2015	2016	2014 to 2015	2015 to 2016
Bonds payable	\$ 1,002,490,180	1,072,022,814	1,121,486,870	6.9%	4.6%
Notes payable	17,154,730	16,203,322	10,819,307	(5.5)	(33.2)
Capital lease obligations	33,441,079	71,692,377	103,790,787	114.4	44.8
Total long-term debt	\$ 1,053,085,989	1,159,918,513	1,236,096,964	10.1%	6.6%

Bonded debt increased during 2016 and 2015 by 4.6% or \$49.5 million and 6.9% or \$69.5 million, respectively. While MVSU, ASU and USM issued approximately \$17.3 million, \$48.5 million and \$70.8 million, respectively, in new bond refundings during fiscal year 2016, UM issued approximately \$87.4 million in new bond funding for construction, equipping and landscaping of additional student residential housing facilities, expansion and related infrastructure improvements to Vaught-Hemingway Stadium and to refund and advance refund certain bond issues. In addition, during fiscal year 2016, UM entered into two new long term lease obligation for the use of an athletic parking facility and the construction of an arena. UM's total lease obligations were valued at \$85.8 million and \$52.8 million at June 30, 2016 and 2015, respectively.

Designated Revenues

Bond indentures previously issued, and those that may be issued in the future by the institution's Educational Building Corporations (EBC) are payable from designated revenues. The IHL Board covenants under terms of its various bond agreements that if designated revenues are insufficient to satisfy the IHL Board's obligations, the IHL Board will provide amounts from any other legally available source and will then allocate the same to cure the insufficiency. The following table provides a history of all designated revenues available to the IHL Board from fiscal years 2012 through 2016.

Designated Revenues ¹ and Unrestricted Net Positions (excludes UMMC, Board Office, and MCVS)					
	Years ended June 30				
	2012	2013	2014	2015	2016
Tuition, net ²	\$ 439,336,345	464,921,581	497,711,625	517,336,376	551,020,691
Sales and services	52,522,768	51,337,588	54,768,559	60,542,705	60,958,994
Auxiliary enterprises, net ²	189,955,384	203,844,601	217,788,943	259,607,634	286,985,729
Other ³	37,940,875	44,073,191	48,967,419	49,471,340	55,903,573
Sub-total	719,755,372	764,176,961	819,236,546	886,958,055	954,868,987
State appropriations	455,130,385	450,229,385	469,870,373	495,091,965	513,470,169
Unrestricted net positions	492,533,738	499,501,535	542,761,292	(471,538,432)	(423,613,421)
Total	\$ 1,667,419,495	1,713,907,881	1,831,868,211	910,511,588	1,044,725,735

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- ¹ Designated Revenues represent all unrestricted revenues of the IHL System (excluding the member Universities indicated above) which include without limitation, net tuition and auxiliary fees, sales and services, other operating revenue, state appropriations and unrestricted net position balances.
- ² Tuition and auxiliary enterprise revenues are net of scholarship allowances in the form of reduced tuition, room and board.
- ³ Other designated revenues includes federal appropriations, other operating revenues, and interest earned on loans to students.

Economic Outlook

The IHL System began the 2016 fiscal year with an anticipated systemwide operating budget increase of \$328 million. This increase was funded primarily by a mixture of tuition revenues, auxiliary revenues, external restricted gifts and grants, but also in large part by newly anticipated hospital revenues to be generated from daily census improvements and more robust patient fee and charge processes. The actual net surplus for 2016 was \$173.0 million, (see the SRECNP summary table on page 10 of management discussion and analysis). In reality, while the anticipated tuition and auxiliary revenue gains did actually materialize, external funding fell short of budgeted expectations. For fiscal year 2017, general education funding from the State of Mississippi will decrease 3.46% (\$26.9 million). Approximately \$11 million of that new funding was earmarked by legislature for capital projects, mainly renovations. The remainder will be used primarily for classroom instruction. Once again, the IHL System will continue to rely upon increases in tuition and auxiliary revenues to provide the necessary funds for sustained excellence in its academic programs and student services. The IHL System anticipates receiving an additional \$44.3 million in new tuition revenue during 2017 due to a mixture of enrollment growth and general rate increases. In 2017 state appropriated revenues will comprise approximately 31.8% of the total E&G budget, while self-generated tuition revenues will equal 63.3% of the total revenues. In comparison, in fiscal year 2010, state appropriations represented 42% of revenues, while tuition revenue equaled 48% of the total.

The IHL System maintains high credit ratings from Moody's (Aa2), Fitch (AA) and Standard & Poor's (AA-). Achieving and maintaining these high credit ratings provide the IHL System higher degree of flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the IHL System to provide the necessary resources to support a level of excellence in service to students, patients, the research community, the State of Mississippi and the nation as a whole.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

As a labor-intensive organization, the IHL System faces competitive pressures related to attracting and retaining faculty and staff. Moreover, consistent with the national landscape, the cost of the IHL System's health benefits for its employees continues to increase. The IHL System has in the past and will continue to take proactive steps to respond to these challenges of rising costs. An example of continued steps includes the preparation of three year business plans by the institutions.

While it is not possible at this time to predict the ultimate results, management at each institution has a proven track record of successfully adapting to this present economic environment while continuing to search for new opportunities to complement state support. The IHL System's financial goal, as always, is to deliver quality services to its customers and constituents while maintaining financial integrity.

This financial report is designed to provide a general overview of the finances of the IHL System. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Board of Trustees
Accounting Department
3825 Ridgewood Road
Jackson, MS 39211

BASIC FINANCIAL STATEMENTS

(THIS PAGE LEFT BLANK INTENTIONALLY)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Statements of Net Position

June 30, 2016 and 2015

Assets and Deferred Outflows	2016	2015
Current assets:		
Cash and cash equivalents	\$ 461,021,888	446,042,478
Short-term investments	220,559,840	186,491,269
Accounts receivable, net	374,690,496	338,790,163
Student notes receivable, net	15,766,208	15,840,809
Inventories	32,210,811	30,070,181
Prepaid expenses	33,075,731	35,262,369
Other current assets	<u>9,031,684</u>	<u>515,000</u>
Total current assets	<u>1,146,356,658</u>	<u>1,053,012,269</u>
Noncurrent assets:		
Restricted cash and cash equivalents	185,490,081	255,587,979
Restricted short-term investments	15,721,437	15,871,528
Endowment investments	247,325,616	265,444,560
Other long-term investments	433,633,373	388,391,821
Student notes receivable, net	100,046,680	98,815,378
Capital assets, net	3,874,246,454	3,585,173,759
Other noncurrent assets	<u>4,690,987</u>	<u>5,413,089</u>
Total noncurrent assets	<u>4,861,154,628</u>	<u>4,614,698,114</u>
Total assets	<u>6,007,511,286</u>	<u>5,667,710,383</u>
Deferred outflows of resources:		
Deferred loss on refunding of debt	25,673,108	10,660,581
Pension related deferred outflows	<u>477,107,013</u>	<u>215,304,553</u>
Total assets and deferred outflows of resources	<u>\$ 6,510,291,407</u>	<u>5,893,675,517</u>
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 214,690,067	206,430,857
Unearned revenues	125,018,901	114,419,688
Accrued leave liabilities-current portion	11,014,419	10,968,937
Long-term liabilities-current portion	60,489,446	52,386,405
Other current liabilities	<u>26,795,839</u>	<u>37,984,185</u>
Total current liabilities	<u>438,008,672</u>	<u>422,190,072</u>
Noncurrent liabilities:		
Net pension liability	2,402,927,178	1,850,037,000
Deposits refundable	1,035,215	958,228
Accrued leave liabilities	117,295,773	110,474,922
Long-term liabilities	1,223,380,976	1,153,069,741
Other long-term liabilities	<u>87,221,272</u>	<u>88,913,590</u>
Total noncurrent liabilities	<u>3,831,860,414</u>	<u>3,203,453,481</u>
Total liabilities	<u>4,269,869,086</u>	<u>3,625,643,553</u>
Deferred inflows of resources:		
Deferred amount of refundings	2,129,565	—
Pension related deferred inflows	<u>65,419,255</u>	<u>268,176,489</u>
Total liabilities and deferred inflows of resources	<u>\$ 4,337,417,906</u>	<u>3,893,820,042</u>
Net position:		
Net investment in capital assets	\$ 2,677,754,149	2,540,285,905
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	20,528,512	22,037,216
Research	4,344,755	4,955,842
Other purposes	129,118,074	127,695,568
Expendable:		
Scholarships and fellowships	57,800,948	61,315,143
Research	55,119,008	54,469,530
Capital projects	7,562,835	9,739,452
Debt service	19,335,218	14,523,683
Loans	36,507,069	33,507,981
Other purposes	86,827,881	96,121,210
Unrestricted	<u>(922,024,948)</u>	<u>(964,796,055)</u>
Total net position	<u>\$ 2,172,873,501</u>	<u>1,999,855,475</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 2,604,925	4,079,094
Restricted cash	5,695,276	5,688,326
Accrued interest, other receivables and prepaid assets	261,465	179,206
Receivable from MSU Alumni Foundation	—	225,844
Receivable from MSU Alumni Association	122,545	139,586
Pledges receivable, net	38,418,418	35,432,295
Investments	410,573,276	433,875,820
Present value of amounts due from externally managed trusts	46,924,276	40,230,993
Land, buildings, and equipment, net	8,968,555	9,335,303
Total assets	<u>\$ 513,568,736</u>	<u>529,186,467</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,537,647	3,358,390
Agency payable	5,695,276	5,688,326
Liabilities under split interest agreements	4,865,825	4,794,949
Payable to Mississippi State University	31,716	93,407
Total liabilities	<u>12,130,464</u>	<u>13,935,072</u>
Net assets:		
Unrestricted:		
Net assets attributable to the Foundation	37,520,770	40,627,525
Net assets attributable to noncontrolling interest	42,419,717	59,352,202
Total unrestricted net assets	<u>79,940,487</u>	<u>99,979,727</u>
Temporarily restricted	81,381,257	99,907,112
Permanently restricted	340,116,528	315,364,556
Total net assets	<u>501,438,272</u>	<u>515,251,395</u>
Total liabilities and net assets	<u>\$ 513,568,736</u>	<u>529,186,467</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 8,728,828	7,730,829
Pledges receivable, net	51,542,933	31,607,327
Investments	396,683,891	402,030,176
Beneficial interest in remainder trust	7,450,869	1,066,611
Property and equipment, net	2,542,793	2,778,494
Other assets	1,290,526	1,317,964
Total assets	<u>\$ 468,239,840</u>	<u>446,531,401</u>
Liabilities and Net Assets		
Liabilities:		
Funds held for others	\$ 22,056,528	23,360,075
Liabilities under remainder trusts	5,574,469	7,265,250
Other liabilities	7,558,472	5,385,420
Total liabilities	<u>35,189,469</u>	<u>36,010,745</u>
Net assets:		
Unrestricted	16,348,947	17,186,241
Temporarily restricted	193,482,320	183,044,292
Permanently restricted	223,219,104	210,290,123
Total net assets	<u>433,050,371</u>	<u>410,520,656</u>
Total liabilities and net assets	<u>\$ 468,239,840</u>	<u>446,531,401</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 1,085,377	1,014,651
Accrued interest	129,284	116,679
Prepaid assets and other receivables	1,002,168	244,369
Pledges receivable, net	8,224,516	12,052,041
Investments	96,668,501	97,824,663
Present value of amounts due from externally managed trusts	4,883,516	817,080
Net investment in direct financing lease	479,945	634,855
Property and equipment, net	38,183	69,485
Total assets	<u>\$ 112,511,490</u>	<u>112,773,823</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 371,992	758,795
Gift annuities payable	286,181	305,330
Total liabilities	<u>658,173</u>	<u>1,064,125</u>
Net assets:		
Unrestricted	6,024,035	5,392,868
Temporarily restricted	33,689,732	42,722,252
Permanently restricted	72,139,550	63,594,578
Total net assets	<u>111,853,317</u>	<u>111,709,698</u>
Total liabilities and net assets	<u>\$ 112,511,490</u>	<u>112,773,823</u>

See accompanying notes to financial statements.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Tuition and fees:	\$ 854,116,172	792,052,231
Less scholarship allowances	(273,364,654)	(246,618,987)
Less bad debt expense	(3,748,359)	(2,776,375)
Net tuition and fees	<u>577,003,159</u>	<u>542,656,869</u>
Federal appropriations	18,796,056	18,137,773
Federal grants and contracts	266,745,196	246,879,020
State grants and contracts	46,079,949	43,893,140
Nongovernmental grants and contracts	83,986,203	82,832,423
Sales and services of educational departments	62,918,323	62,286,138
Auxiliary enterprises:		
Student housing	101,154,917	96,258,418
Food services	31,608,552	30,739,982
Bookstore	6,851,820	6,681,243
Athletics	143,620,060	123,263,529
Other auxiliary revenues	41,264,838	40,325,102
Less auxiliary enterprise scholarship allowances	(31,328,422)	(30,032,312)
Interest earned on loans to students	979,296	916,692
Patient care revenues, net	1,086,205,305	1,043,115,837
Other operating revenues, net	<u>103,801,727</u>	<u>75,449,088</u>
Total operating revenues	<u>2,539,686,979</u>	<u>2,383,402,942</u>
Operating expenses:		
Salaries and wages	1,579,864,383	1,497,866,174
Fringe benefits	554,689,495	428,716,134
Travel	57,412,800	55,054,593
Contractual services	445,904,691	436,197,011
Utilities	64,855,950	70,422,300
Scholarships and fellowships	174,677,726	172,663,055
Commodities	377,571,345	357,505,798
Depreciation	147,049,697	144,509,434
Other operating expenses	<u>9,906,457</u>	<u>7,378,216</u>
Total operating expenses	<u>3,411,932,544</u>	<u>3,170,312,715</u>
Operating loss	<u>(872,245,565)</u>	<u>(786,909,773)</u>
Nonoperating revenues (expenses):		
State appropriations	753,163,410	733,559,405
Gifts and grants	192,072,708	192,190,103
Investment income	19,600,414	17,242,233
Interest expense on capital asset-related debt	(38,740,301)	(37,924,727)
Other nonoperating revenues	2,610,632	1,691,632
Other nonoperating expenses	<u>(11,416,532)</u>	<u>(3,696,797)</u>
Total nonoperating revenues, net	<u>917,290,331</u>	<u>903,061,849</u>
Income before other revenues, expenses, gains and losses	45,044,766	116,152,076
Other revenues, expenses, gains and losses:		
Capital grants and gifts	43,588,266	62,015,792
State appropriations restricted for capital purposes	82,307,425	75,648,301
Additions to permanent endowments	1,656,306	1,826,722
Other additions	6,466,314	8,232,970
Other deletions	<u>(6,045,051)</u>	<u>(6,527,841)</u>
Change in net position	<u>173,018,026</u>	<u>257,348,020</u>
Net position, beginning of the year	<u>1,999,855,475</u>	<u>1,742,507,455</u>
Net position, end of the year	<u>\$ 2,172,873,501</u>	<u>1,999,855,475</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

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	(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
Change in restrictions by donor	—	—	—	—
Net assets released from restrictions	30,004,243	(30,004,243)	—	—
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	586,900	—	—	586,900
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	3,898,054	—	—	3,898,054
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	(5,072,402)	(26,702,537)	18,919,429	(12,855,510)
Change in net assets attributable to noncontrolling interests	1,965,467	—	—	1,965,467
Change in net assets related to merger with MSU Alumni Foundation	—	8,176,682	5,832,543	14,009,225
Payments to noncontrolling interests	(16,932,305)	—	—	(16,932,305)
Total change in net assets	<u>(20,039,240)</u>	<u>(18,525,855)</u>	<u>24,751,972</u>	<u>(13,813,123)</u>
Net assets, beginning of year	<u>99,979,727</u>	<u>99,907,112</u>	<u>315,364,556</u>	<u>515,251,395</u>
Net assets, end of year	<u>\$ 79,940,487</u>	<u>81,381,257</u>	<u>340,116,528</u>	<u>501,438,272</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 8,134,446	23,268,033	5,004,703	36,407,182
Net investment income	(3,282,026)	1,555,626	17,217	(1,709,183)
Change in value of split interest agreements	—	(27,044)	154,984	127,940
Other	4,982,409	345,668	—	5,328,077
Change in restrictions by donor	—	(1,750,000)	1,750,000	—
Net assets released from restrictions	24,058,888	(24,058,888)	—	—
Total revenues and support	<u>33,893,717</u>	<u>(666,605)</u>	<u>6,926,904</u>	<u>40,154,016</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	27,865,923	—	—	27,865,923
Contributions and support for Bulldog Club	600,475	—	—	600,475
Contributions and support for MSU Alumni Association	530,386	—	—	530,386
Total program services	<u>28,996,784</u>	<u>—</u>	<u>—</u>	<u>28,996,784</u>
Supporting services:				
General and administrative	3,660,974	—	—	3,660,974
Fund raising	3,706,107	—	—	3,706,107
Total supporting services	<u>7,367,081</u>	<u>—</u>	<u>—</u>	<u>7,367,081</u>
Total expenditures	<u>36,363,865</u>	<u>—</u>	<u>—</u>	<u>36,363,865</u>
Change in net assets	(2,470,148)	(666,605)	6,926,904	3,790,151
Proceeds from noncontrolling interests	4,172,424	—	—	4,172,424
Payments to noncontrolling interests	(1,486,738)	—	—	(1,486,738)
Total change in net assets	215,538	(666,605)	6,926,904	6,475,837
Net assets, beginning of year	99,764,189	100,573,717	308,437,652	508,775,558
Net assets, end of year	<u>\$ 99,979,727</u>	<u>99,907,112</u>	<u>315,364,556</u>	<u>515,251,395</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts, and bequests	\$ —	51,015,382	9,452,422	60,467,804
Dividend and interest income	1,486,945	3,764,476	—	5,251,421
Net unrealized and realized gains on investments	(676,744)	(11,177,334)	11,006	(11,843,072)
Change in value of split-interest agreements	—	62,142	687,862	750,004
Other income	742,007	1,271,994	40,430	2,054,431
Net assets released from restrictions/ redesignated by donor	31,761,371	(34,498,632)	2,737,261	—
Total revenues, gains, and other support	33,313,579	10,438,028	12,928,981	56,680,588
Expenses:				
Support for University activities	30,011,791	—	—	30,011,791
General and administrative expenses	2,707,271	—	—	2,707,271
Fund-raising expenses	1,431,811	—	—	1,431,811
Total expenses	34,150,873	—	—	34,150,873
Change in net assets	(837,294)	10,438,028	12,928,981	22,529,715
Net assets, beginning of year	17,186,241	183,044,292	210,290,123	410,520,656
Net assets, end of year	\$ 16,348,947	193,482,320	223,219,104	433,050,371

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts, and bequests	\$ —	34,869,998	13,944,742	48,814,740
Dividend and interest income	1,405,085	3,445,866	—	4,850,951
Net unrealized and realized gains on investments	(517,879)	2,783,751	4,622	2,270,494
Change in value of split-interest agreements	—	—	(191,373)	(191,373)
Other income	717,926	1,396,326	69,232	2,183,484
Net assets released from restrictions/ redesignated by donor	33,585,148	(37,360,144)	3,774,996	—
	<u>35,190,280</u>	<u>5,135,797</u>	<u>17,602,219</u>	<u>57,928,296</u>
Total revenues, gains, and other support				
Expenses:				
Support for University activities	32,713,155	—	—	32,713,155
General and administrative expenses	2,777,658	—	—	2,777,658
Fund-raising expenses	1,184,108	—	—	1,184,108
	<u>36,674,921</u>	<u>—</u>	<u>—</u>	<u>36,674,921</u>
Total expenses				
Change in net assets	(1,484,641)	5,135,797	17,602,219	21,253,375
Net assets, beginning of year	18,670,882	177,908,495	192,687,904	389,267,281
Net assets, end of year	<u>\$ 17,186,241</u>	<u>183,044,292</u>	<u>210,290,123</u>	<u>410,520,656</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 2,100,023	2,997,493	7,312,426	12,409,942
Net investment gain	1,470,364	(1,901,597)	33,138	(398,095)
Change in value of split interest agreements	—	(992)	87,922	86,930
Other	38,084	30,516	2,878	71,478
Change in restriction by donor	10,022	(1,118,630)	1,108,608	—
Net assets released from restrictions	9,039,310	(9,039,310)	—	—
	<u>12,657,803</u>	<u>(9,032,520)</u>	<u>8,544,972</u>	<u>12,170,255</u>
Total revenues, gains and other support				
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	9,605,938	—	—	9,605,938
Total program services	<u>9,605,938</u>	<u>—</u>	<u>—</u>	<u>9,605,938</u>
Supporting services:				
General and administrative	1,557,489	—	—	1,557,489
Fund raising	863,209	—	—	863,209
Total supporting services	<u>2,420,698</u>	<u>—</u>	<u>—</u>	<u>2,420,698</u>
Total expenses	<u>12,026,636</u>	<u>—</u>	<u>—</u>	<u>12,026,636</u>
Change in net assets	631,167	(9,032,520)	8,544,972	143,619
Net assets, beginning of year	<u>5,392,868</u>	<u>42,722,252</u>	<u>63,594,578</u>	<u>111,709,698</u>
Net assets, end of year	<u>\$ 6,024,035</u>	<u>33,689,732</u>	<u>72,139,550</u>	<u>111,853,317</u>

See accompanying notes to financial statements.

**STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING
DISCRETELY PRESENTED COMPONENT UNIT –
THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,847,693	3,684,355	2,331,508	7,863,556
Net investment gain	1,442,572	292,479	66,693	1,801,744
Change in value of split interest agreements	—	(590)	(99,904)	(100,494)
Other	44,774	32,071	22	76,867
Change in restriction by donor	(10,614)	(2,046,584)	2,057,198	—
Net assets released from restrictions	10,802,618	(10,802,618)	—	—
Total revenues, gains and other support	<u>14,127,043</u>	<u>(8,840,887)</u>	<u>4,355,517</u>	<u>9,641,673</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,158,123	—	—	11,158,123
Total program services	<u>11,158,123</u>	<u>—</u>	<u>—</u>	<u>11,158,123</u>
Supporting services:				
General and administrative	1,633,572	—	—	1,633,572
Fund raising	1,071,265	—	—	1,071,265
Total supporting services	<u>2,704,837</u>	<u>—</u>	<u>—</u>	<u>2,704,837</u>
Total expenses	<u>13,862,960</u>	<u>—</u>	<u>—</u>	<u>13,862,960</u>
Change in net assets	264,083	(8,840,887)	4,355,517	(4,221,287)
Net assets, beginning of year	<u>5,128,785</u>	<u>51,563,139</u>	<u>59,239,061</u>	<u>115,930,985</u>
Net assets, end of year	<u>\$ 5,392,868</u>	<u>42,722,252</u>	<u>63,594,578</u>	<u>111,709,698</u>

See accompanying notes to financial statements.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Operating activities:		
Tuition and fees	\$ 572,470,925	530,733,389
Grants and contracts	409,349,570	388,595,413
Sales and services of educational departments	64,550,870	61,739,701
Payments to suppliers	(872,379,523)	(830,477,429)
Payments to employees for salaries and benefits	(2,043,367,412)	(1,933,205,524)
Payments for utilities	(64,926,009)	(70,830,937)
Payment for scholarships and fellowships	(166,766,819)	(174,101,475)
Loans issued to students and employees	(21,828,760)	(26,721,691)
Collections of loans to students and employees	13,859,921	14,905,504
Auxiliary enterprise charges:		
Student housing	82,129,563	85,684,860
Food services	25,866,267	27,112,762
Bookstore	6,689,090	6,823,911
Athletics	144,365,822	133,095,676
Other auxiliary enterprises	33,162,503	36,986,620
Patient care services	1,042,311,163	1,043,904,871
Interest earned on loans to students	1,016,071	938,552
Other receipts	114,225,851	97,335,440
Other payments	(9,366,058)	(15,871,191)
Net cash used in operating activities	(668,636,965)	(623,351,548)
Noncapital financing activities:		
State appropriations	756,058,081	729,617,722
Gifts and grants for other than capital purposes	172,434,526	181,498,476
Private gifts for endowment purposes	25,521,667	1,763,733
Federal loan program receipts	502,516,142	497,429,356
Federal loan program disbursements	(502,567,096)	(497,191,413)
Other sources	9,549,509	603,685
Other uses	(32,641,048)	(4,395,602)
Net cash provided by noncapital financing activities	930,871,781	909,325,957
Capital and related financing activities:		
Proceeds from capital debt	187,457,861	210,394,262
Cash paid for capital assets	(300,537,800)	(234,314,489)
Capital appropriations received	4,260,923	1,900,316
Capital grants and contracts received	45,290,179	49,450,389
Proceeds from sales of capital assets	1,233,478	1,112,223
Principal paid on capital debt and leases	(150,680,766)	(86,690,541)
Interest paid on capital debt and leases	(52,034,683)	(39,461,812)
Other sources	5,327,192	35,135,457
Other uses	(19,862,003)	(75,684,916)
Net cash used in capital and related financing activities	(279,545,619)	(138,159,111)
Investing activities:		
Proceeds from sales and maturities of investments	563,675,778	399,563,519
Interest received on investments	12,945,608	24,081,854
Purchases of investments	(614,429,071)	(453,570,060)
Net cash used in investing activities	(37,807,685)	(29,924,687)
Net change in cash and cash equivalents	(55,118,488)	117,890,611
Cash and cash equivalents, beginning of year	701,630,457	583,739,846
Cash and cash equivalents, end of the year	\$ 646,511,969	701,630,457

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (872,245,565)	(786,909,773)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	147,049,697	144,509,434
Self-insured claims expense	10,495,404	13,317,074
Provision for uncollectible patient accounts receivable	155,923,237	118,266,527
Other	324,992	7,928,806
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	(184,602,695)	(129,096,725)
Inventories	(2,564,352)	(1,268,661)
Prepaid expenses	(766,692)	(11,148,419)
Other assets	(32,906,831)	(49,176,820)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	8,259,210	15,792,648
Unearned revenue	10,599,213	18,180,355
Deposits refundable	76,987	12,690
Accrued leave liability	3,947,099	3,424,323
Loans to students and employees	8,397,101	(570,951)
Other liabilities	79,376,230	33,387,944
Total adjustments	203,608,600	163,558,225
Net cash used in operating activities	\$ (668,636,965)	(623,351,548)
Reconciliation of cash and cash equivalents:		
Current assets – cash and cash equivalents	\$ 461,021,888	446,042,478
Noncurrent assets – restricted cash and cash equivalents	185,490,081	255,587,979
Cash and cash equivalents, end of year	\$ 646,511,969	701,630,457
Noncash capital related financing and investing activities:		
Capital assets acquired through donations and capital leases	\$ 82,307,425	57,729,480
Capital assets appropriated by the State of Mississippi	49,050,697	75,648,301

See accompanying notes to financial statements.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) *Nature of Operations*

Through its member universities, the State of Mississippi Institutions of Higher Learning (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 Mississippi and throughout the world.

(b) *Reporting Entity*

The Mississippi Constitution was amended in 1943 to create a separate legal entity and establish a Board of Trustees of State Institutions of Higher Learning (Board). This constitutional Board provides management and control of Mississippi's system of universities. The Board meets monthly and oversees the eight public universities, the University of Mississippi Medical Center and various off-campus centers and locations throughout the state. Each of these member universities is a member of the IHL System. The IHL System is considered a component unit of the State of Mississippi reporting entity.

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 occur from the three current Supreme Court districts for terms of nine years.

Each of the eight universities and the University of Mississippi Medical Center has established its own educational building corporation (a nonprofit corporation incorporated in the State of Mississippi) in accordance with Section 37-101-61 of the Mississippi Code Annotated of 1972. The purpose of these corporations is for the acquisition, construction and equipping of facilities and land for the various universities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the educational building corporations are deemed to be material component units of the IHL System but are presented on a blended basis in the accompanying financial statements due to the significance of their activities to respective member university's operations. These blended component units provide services entirely, or almost entirely, to their respective universities. See note 9 for detailed educational building corporation activities.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following is a list of abbreviations used throughout the report for the member universities of the State of Mississippi Institutions of Higher Learning (collectively the IHL System):

ASU	Alcorn State University
DSU	Delta State University
JSU	Jackson State University
MSU	Mississippi State University
MUW	Mississippi University for Women
MVSU	Mississippi Valley State University
UM	University of Mississippi
USM	University of Southern Mississippi
UMMC	University of Mississippi Medical Center
IHL Executive Office	Institutions of Higher Learning – Executive Office
MCVS	Mississippi Commission for Volunteer Services – Off-campus entity

The IHL System reports the following discretely presented component units, which also have separate stand-alone audits performed, which can be obtained by requesting a copy from the finance department of each respective university below:

Mississippi State University Foundation, Inc.

The Mississippi State University Foundation, Inc. is a legally separate, tax-exempt not for profit entity established to solicit and manage funds for the benefit of Mississippi State University.

University of Mississippi Foundation

The University of Mississippi Foundation is a legally separate, tax-exempt not for profit nonstock corporation formed for the benefit of the University of Mississippi.

University of Southern Mississippi Foundation

The University of Southern Mississippi Foundation is a not for profit entity formed to provide support to the University of Southern Mississippi and its students.

These foundations are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including ASC 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the IHL System's financial reporting entity for these differences.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

These foundations act primarily as fund-raising organizations to supplement the resources that are available to the respective universities in support of their programs. The governing body of each foundation is self-perpetuating and consists of graduates and friends of the respective universities. Although the respective universities do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, which the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the respective universities, these foundations are considered discretely presented component units of the IHL System.

The Mississippi State University Foundation, Inc., the University of Mississippi Foundation, and the University of Southern Mississippi Foundation each make distributions to their respective Universities for support. During the years ended June 30, 2016 and 2015, support distributions were as follows:

		2016	2015
Mississippi State University Foundation, Inc.	\$	36,763,705	27,865,923
University of Mississippi Foundation		30,011,791	32,713,155
University of Southern Mississippi Foundation		9,605,938	11,158,123

(c) *Basis of Accounting*

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

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

(d) *New Accounting Standards*

During fiscal year 2016, the IHL System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement generally requires investments to be measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques are required to be used that are appropriate with defined approaches. Disclosures are required to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this statement had no impact on the financial statements beyond the disclosures added in note 2(b).

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(e) Recently Issued Accounting Standards

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees not within the scope of Statement No. 68. Requirements are also established for assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet the criteria within the scope of Statement No. 67. This statement is effective for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes financial reporting standards for Other Post Employment Benefit Plans (OPEB) that is administered through trusts or equivalent arrangements which involve contributions from employers and nonemployer contributing entities to the OPEB plan. This Statement is effective for fiscal years beginning after June 15, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviation from the guidance in an Actuarial Standards of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016.

The impact of these pronouncements on the IHL System's financial statements is currently being evaluated and has not yet been fully determined.

(f) 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 expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the determination of the allowances for uncollectible accounts and contractual adjustments and estimated third-party payor settlements, included as other current assets and as other current liabilities, relating to the IHL System's patient services. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a least a reasonable possibility that recorded estimates associated with these programs could change by a material amount in the near term.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Included in other noncurrent liabilities are unpaid claim liabilities relating to the IHL System's self-insured workers' compensation, unemployment compensation, and tort claims. The liabilities for these unpaid claims and loss adjustment expenses are determined using both evaluations of each claim and statistical analyses and represent the estimated ultimate net cost of all claims and expenses incurred through the end of the reporting period. The determinations of claims payable include estimates that are particularly susceptible to change in the near term. Management believes that liabilities established for these unpaid claims at June 30, 2016 and 2015 are adequate to cover the ultimate net cost of claims and contractual adjustments, but these liabilities are necessarily based upon estimates, and accordingly, the amount ultimately paid will be more or less than such estimates. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in operations currently.

The IHL System'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 IHL System's financial statements.

In connection with the preparation of the financial statements of the IHL System, management evaluated subsequent events through December 21, 2016 which was the date the financial statements were available to be issued.

(g) *Cash Equivalents*

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

(h) *Short-Term Investments*

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

(i) *Accounts Receivable, Net*

Accounts receivable consist of tuition and fee charges to students and patient accounts receivable at UMMC. 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 IHL System's grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.

(j) *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 statement of net position as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as noncurrent assets on the statements of net position.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(k) Inventories

Inventories consist of bookstore, physical plant, agriculture, printing, central supply, food service supply, and various hospital inventories. These inventories are generally valued at the lower of cost or market, on the first-in, first-out (FIFO) basis.

(l) Prepaid Expenses

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

(m) Restricted Cash and Cash Equivalents and Restricted Short-Term Investments

Cash, cash equivalents, and short-term investments 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 statements of net position.

(n) Endowment Investments

The IHL System's endowment investments recorded at fair value, 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 or for which the donor has stipulated that the principal may be expended only after a stated period or upon the occurrence of a certain event, and funds functioning as endowments, which are funds established by the governing board to function similar to an endowment fund but may be fully expended at any time at the discretion of the governing board.

(o) Investments

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. Investments in partnerships for which there are no quoted market prices are valued at net asset value, as a practical expedient in determining fair value.

(p) Capital Assets, Net

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 IHL System's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 5 for additional details concerning useful lives and salvage values. The IHL System 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(q) *Deferred Inflows and Outflows*

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

The IHL System has deferred outflows of resources. The deferred outflows of resources are consumption of net assets by the IHL System that are applicable to a future reporting period and include the unamortized amounts for losses on the refunding of bond debt and pension related deferred outflows.

(r) *Net Pension Liability*

For purposes of measuring 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 IHL System's proportionate share of liability and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by Public Employees' Retirement System of Mississippi (PERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(s) *Accounts Payable and Accrued Liabilities*

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

(t) *Compensated Absences/Accrued Leave*

Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to fifteen years of service; and 18 hours per month for fifteen years of service and above.

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 requirement that annual leave be taken, and there is no maximum accumulation. At termination, employees are paid up to 240 hours of accumulated leave. At retirement, employees are paid up to 240 hours of accumulated major medical leave.

(u) *Unearned Revenues*

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(v) ***Deposits Refundable***

Deposits refundable represent good faith deposits from students to reserve housing assignments, key deposits and post breakage deposits in the residence halls of the member universities of the IHL System.

(w) ***Noncurrent Liabilities***

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amount of proportionate share of net pension liability; (3) estimated amounts for accrued compensated absences, deposits refundable and other liabilities that will not be paid within the next fiscal year; and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

(x) ***Government Advances Refundable***

The IHL System participates in the Federal Perkins Loan and Nursing Loan Programs, which are funded through a combination of federal and institutional resources. The portion of these programs that has been funded with federal funds is ultimately refundable to the U.S. government upon the termination of IHL System's participation in the programs. The portion that would be refundable if the programs were terminated has been presented as other long-term liabilities and approximated \$59.2 million and \$59.7 million, respectively, as of June 30, 2016 and 2015.

(y) ***Income Taxes***

As an integral part of the State of Mississippi, a governmental entity, the IHL System is generally not subject to federal income tax, however, income generated from activities unrelated to the IHL System's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

(z) ***Classification of Revenues and Expenses***

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

Operating Revenues and Expenses

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances and bad debt expense, (2) sales and services education services 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, (4) interest on institutional student loans and other revenues, and (5) patient care 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Nonoperating Revenues and Expenses

Nonoperating revenues have the characteristics of nonexchange transactions. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including state appropriation for operations and capital uses, federal grants for financial aid, gifts, investment income, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, and GASB No. 34. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

(aa) 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, athletics, food services, bookstore, convenience store, laundry and faculty and staff housing. The general public may be served incidentally by auxiliary enterprises.

(bb) Patient Care Revenues, Net

UMMC's hospital and clinical service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors, less an allowance for doubtful accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Inpatient acute care services and substantially all outpatient services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. UMMC is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare and Medicaid intermediary.

Impatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. UMMC is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by UMMC and audits thereof by Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 28.5% and 31.2%, respectively, of UMMC's net patient service revenues for the years ended June 30, 2016 and approximately 27.2% and 31.7%, respectively, for the year ended June 30, 2015.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

UMMC also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to UMMC under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

(cc) *Hospital Reimbursement*

The University Hospitals and Health System (UHHS) Medicare cost reports have been audited and settled by the fiscal intermediary through the cost reports filed for the years ended June 30, 2012 for the Jackson Campus and June 30, 2013 for Holmes County Hospital. No cost reports for UMMC Grenada have been audited since this facility was acquired by UMMC.

During FY 2009, UHHS received notification that Medicare had designated the Recovery Audit Contractor (RAC) for the region that includes the State of Mississippi. The RAC program is intended to identify and recover improper Medicare payments made to health care providers as far back as three years from the current date. While UHHS believes all claims submitted to Medicare are supported by the services provided, the RAC could make adjustments based on differing interpretation of the regulations. Audits of Medicare claims began in FY 2010 and are expected to continue in the future. Based on recent audit experiences and planned audit activities, the reserve balance was \$2.25 million and \$9.0 million, which is recorded in other current liabilities, at the end of fiscal year 2016 and 2015, respectively. The main contributor to this decline is more favorable audit results coupled with less periods remaining under the audit.

Over seven years ago, the Division of Medicaid (DOM) notified all providers in the State of Mississippi of a change in the methodology used to reimburse outpatient services. DOM had adopted a payment methodology for outpatient services at a fixed cost to charge ratio that was increased each year by an inflationary index. At that time, DOM issued letters to all providers of an updated reimbursement percentage based on more current cost data. At June 30, 2016 and 2015, UHHS maintains a reserve of approximately \$12.8 million and \$12.1 million, respectively, in other current liabilities, for Medicaid rate recalculations and other adjustments for prior fiscal years.

(dd) *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 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(ee) *Net Position*

The IHL System 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 assets and deferred outflows of resources and liabilities and deferred inflows of resources in a statement of net position and is displayed in three components – net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted.

Net investment in capital assets reflect the IHL System’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 investment in capital assets.

Restricted, nonexpendable net position consist 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 IHL System 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 represent resources derived from student tuition and fees, state appropriations, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position 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.

(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 System is governed by State statute (Section 27-105-33, MS Code Ann. 1972) and the Uniform Management of Institutional Funds Act of 1998.

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

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

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 universities 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, 2016 and 2015 is as follows:

	2016	2015
Cash	\$ 461,021,888	446,042,478
Restricted cash and cash equivalents	185,490,081	255,587,979
U.S. Treasury securities	259,420,914	198,612,317
U.S. Government agency securities	274,464,945	288,008,826
Commercial mortgage backed securities	3,240,927	3,133,647
Collateralized mortgage obligations	43,687,275	31,274,338
Asset backed securities	1,213,697	1,207,860
Corporate bonds and notes	19,411,339	4,575,838
Certificates of deposit	55,502,360	54,919,130
Municipal bonds	41,483,570	49,380,494
Money market funds	393,761	1,487,739
Domestic equity securities	9,046,754	11,473,588
Fixed income mutual funds	20,935,810	22,788,041
International equity mutual funds	17,612,446	24,059,755
Domestic equity mutual funds	21,619,071	31,006,565
Equity long/short hedge funds	76,262,177	61,969,695
Private capital	14,660,923	12,654,542
Mississippi State Investment Pool	37,906,842	40,504,996
Miscellaneous	20,377,455	28,132,709
Total	\$ 1,563,752,235	1,566,820,537

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(b) *Fair Value Measurement*

GASB No. 72, *Fair Value Measurement and Application*, enhances comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. The standard establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories – Level 1, Level 2, and Level 3 inputs – considering the relative reliability of the inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted (unadjusted) prices in active markets for identical financial assets or liabilities that the IHL System has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; 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 categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment risk.

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

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following tables present the financial assets carried at fair value by level within the valuation hierarchy, as well as, the assets measured at the net asset value (NAV) per share as a practical expedient as of June 30, 2016 and 2015.

	2016			
	Level 1	Level 2	Level 3	Total
Debt securities:				
U.S. Treasury securities	\$ 259,420,914	—	—	259,420,914
U.S. Government securities	—	274,464,945	—	274,464,945
U.S. Government asset backed securities	—	48,141,899	—	48,141,899
Corporate bonds and notes	—	19,411,339	—	19,411,339
Certificates of deposit	—	55,502,360	—	55,502,360
Municipal bonds	—	41,483,570	—	41,483,570
Money market funds	—	393,761	—	393,761
Total fixed income investments	\$ 259,420,914	439,397,874	—	698,818,788
Equity securities:				
Domestic equity securities	\$ 9,046,754	—	—	9,046,754
Mutual funds (fixed, international, domestic)	60,167,327	—	—	60,167,327
Total equity securities	\$ 69,214,081	—	—	69,214,081
Investments measured at NAV as a practical expedient:				
Equity long/short hedge funds			\$ 76,262,177	
Private capital			14,660,923	
Mississippi State Investment Pool			37,906,842	
Other miscellaneous investments			20,377,455	
Total investments measured at NAV			149,207,397	
Total investments measured at fair value			\$ 917,240,266	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

2015				
	Level 1	Level 2	Level 3	Total
Fixed income investments:				
U.S. Treasury securities	\$ 198,612,317	—	—	198,612,317
U.S. Government securities	—	288,008,826	—	288,008,826
U.S. Government asset backed securities	—	35,615,845	—	35,615,845
Corporate bonds and notes	—	4,575,838	—	4,575,838
Certificates of deposit	—	54,919,130	—	54,919,130
Municipal bonds	—	49,380,494	—	49,380,494
Money market funds	—	1,487,739	—	1,487,739
Total fixed income investments	<u>\$ 198,612,317</u>	<u>433,987,872</u>	<u>—</u>	<u>632,600,189</u>
Equity Securities:				
Domestic equity securities	\$ 11,473,588	—	—	11,473,588
Mutual funds (fixed, international, domestic)	<u>77,854,361</u>	<u>—</u>	<u>—</u>	<u>77,854,361</u>
Total equity securities	<u>\$ 89,327,949</u>	<u>—</u>	<u>—</u>	<u>89,327,949</u>
Investments measured at NAV:				
Equity long/short hedge funds			\$ 61,969,695	
Private capital			12,654,542	
Mississippi State Investment Pool			40,504,996	
Other miscellaneous investments			<u>28,132,709</u>	
Total investments measured at NAV			<u>143,261,942</u>	
Total investments measured at fair value			\$ <u>865,190,080</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The valuation method for investments measured at the net asset value (NAV) per share as a practical expedient is presented on the following table.

		2016		
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Equity long/short hedge funds (1)	\$ 76,262,177	—	Quarterly	75 days
Private Capital (2)	14,660,923	—	Various	Various
State of Mississippi Investment Pool (3)	37,906,842	—	Daily	1 day
Other miscellaneous investments (4)	20,377,455	—	Various	Various
Total investments measured at NAV	\$ 149,207,397			

- (1) Equity long/short hedge and venture capital funds. These funds specialize primarily in classic long/short hedge equity strategies. These funds invest globally, with a majority of the exposure in liquid, developed markets, and invest primarily in private investment partnerships, venture capital opportunities or limited liability companies and in separately managed accounts, each of which are managed by independent managers.
- (2) Private capital. These investments were provided to help build new startup equities that are considered to have high-growth and high risk potential, mainly in the technology and healthcare sectors.
- (3) Mississippi State Investment Pool. This is investments in diversifying strategies that allow for early redemption for specified fees. With the exception of certain diversifying strategy investments, which has daily redemption, the terms and conditions upon which an investor may redeem an investment vary, usually with a majority requiring 3 to 180 days notice after the initial lock up period, which may be from one to three years. At June 30, 2016 there were no diversifying strategy investments for which an otherwise redeemable investment was not redeemable.
- (4) Other miscellaneous investments. These investments mainly consist of various other miscellaneous tangible items such as land, timberland and various real estate, etc.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

		2015		
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Equity long/short hedge funds (1)	\$ 61,969,695	—	Quarterly	75 days
Private Capital (2)	12,654,542	—	Various	Various
Mississippi State Investment Pool (3)	40,504,996	—	Daily	1 day
Other miscellaneous investments (4)	<u>28,132,709</u>	—	Various	Various
Total investments measured at NAV	\$ <u>143,261,942</u>			

- (1) Equity long/short hedge and venture capital funds. These funds specialize primarily in classic long/short hedge equity strategies. These funds invest globally, with a majority of the exposure in liquid, developed markets, and invest primarily in private investment partnerships, venture capital opportunities or limited liability companies and in separately managed accounts, each of which are managed by independent managers.
- (2) Private capital. These investments were provided to help build new startup equities that are considered to have high-growth and high risk potential, mainly in the technology and healthcare sectors.
- (3) Mississippi State Investment Pool. This is investments in diversifying strategies that allow for early redemption for specified fees. With the exception of certain diversifying strategy investments, which has daily redemption, the terms and conditions upon which an investor may redeem an investment vary, usually with a majority requiring 3 to 180 days notice after the initial lock up period, which may be from one to three years. At June 30, 2015 there were no diversifying strategy investments for which an otherwise redeemable investment was not redeemable.
- (4) Other miscellaneous investments. These investments mainly consist of various other miscellaneous tangible items such as land, timberland and various real estate, etc.

The equity in the long/short hedge funds, private capital, Mississippi State Investment Pool, and other miscellaneous investments represents the IHL System's participations in those investments which is measured at the net asset value (NAV) per share.

(c) **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

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

agent, but not held in the government's name. The IHL System had no investments exposed to custodial credit risk at June 30, 2016 and 2015.

(d) *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 IHL System does not presently have a formal policy that addresses interest rate risk.

As of June 30, 2016 and 2015, the IHL System had the following investments subject to interest rate risk:

	2016				
	Years to maturity				
	Fair value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 259,420,914	124,504,324	127,278,261	7,599,432	38,897
U.S. Government agency obligations	274,464,945	77,756,296	120,885,017	71,996,777	3,826,855
Commercial mortgage backed securities	3,240,927	—	1,654,058	604,896	981,973
Collateralized mortgage obligations	43,687,275	1,437,322	12,586,247	1,105,136	28,558,570
Asset backed securities	1,213,697	—	—	1,213,697	—
Corporate bonds and notes	19,411,339	1,210,748	2,281,257	9,315,873	6,603,461
Certificates of deposit	55,502,360	6,037,360	49,465,000	—	—
Municipal bonds	41,483,570	1,918,614	19,045,571	15,702,879	4,816,506
Fixed income mutual funds	20,935,810	341,346	18,714,627	1,871,863	7,974
Total	<u>\$ 719,360,837</u>	<u>213,206,010</u>	<u>351,910,038</u>	<u>109,410,553</u>	<u>44,834,236</u>

	2015				
	Years to maturity				
	Fair value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 198,612,317	81,262,627	117,343,693	—	5,997
U.S. Government agency obligations	288,008,826	67,274,461	121,193,340	67,427,908	32,113,117
Commercial mortgage backed securities	3,133,647	—	1,654,360	280,604	1,198,683
Collateralized mortgage obligations	31,274,338	728,094	8,533,479	—	22,012,765
Asset backed securities	1,207,860	—	—	1,207,860	—
Corporate bonds and notes	4,575,838	977,552	2,879,807	606,362	112,117
Certificates of deposit	54,919,130	10,522,095	44,397,035	—	—
Municipal bonds	49,380,494	2,800,496	21,959,485	17,550,092	7,070,421
Fixed income mutual funds	22,788,041	59,168	7,772,327	14,956,546	—
Total	<u>\$ 653,900,491</u>	<u>163,624,493</u>	<u>325,733,526</u>	<u>102,029,372</u>	<u>62,513,100</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(e) *Credit Risk*

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The IHL System does not have a formal investment policy that addresses credit risk. As of June 30, 2016 and 2015, the IHL System had the following investments recorded at fair value subject to credit risk:

	<u>2016</u>	<u>2015</u>
Credit rating:		
AAA	\$ 45,513,336	38,150,832
Aaa	115,497,557	116,392,048
Aa1	16,086	16,643
Aa2	35,432,225	24,486,906
Aa3	606,757	696,332
AA	154,513,806	150,675,510
A1	255,753	1,269,805
A2	580,365	568,691
A3	24,068	29,880
A	2,873,111	3,398,112
A+	605,514	—
B	470,241	1,095,463
BA	14,037	13,872
BAA	109,650	133,972
Baa1	112,295	260,408
Baa3	100,281	—
BBB	1,046,951	1,098,554
BB	556,032	937,254
CCC	683,439	1,166,770
Not Rated or Unavailable	45,426,059	59,977,992
Total	<u>\$ 404,437,563</u>	<u>400,369,044</u>

The credit risk ratings listed above are issued upon standards set by Standard and Poor's or Moody's Ratings Services.

(f) *Concentration of Credit Risk*

Concentration of credit risk is defined by GASB Statement No. 40 as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The IHL System does not presently have a formal policy that addresses concentration of credit risk.

As of June 30, 2016 and 2015, the IHL System had the following issuer holding investments recorded at fair value that exceeded 5% of total investments:

<u>Issuer</u>	<u>2016</u>	
	<u>Fair value</u>	<u>Percentage</u>
Federal Home Loan Bank notes	\$ 81,446,551	8.88%

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Issuer	2015	
	Fair value	Percentage
Federal Home Loan Bank notes	\$ 112,803,613	13.18%

(g) *Foreign Currency Risk*

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The IHL System does not presently have a formal policy that addresses foreign currency risk. The IHL System's exposure to foreign currency risk is limited to investments in global or pooled non-U.S. equity mutual funds, which approximated \$10.4 million and \$23.1 million at June 30, 2016 and 2015, respectively.

(3) **Accounts Receivable, Net**

Accounts receivable consisted of the following at June 30, 2016 and 2015:

Type of receivable	2016	2015
Student tuition	\$ 100,201,333	93,590,517
Auxiliary enterprises and other operating activities	32,949,571	29,592,762
Contributions and gifts	13,076,893	14,008,404
Federal, state, and private grants and contracts	101,889,020	102,356,859
State appropriation	10,717,733	15,077,084
Accrued interest	8,196,977	2,706,997
Patient care	2,679,953,202	2,569,494,128
Other	21,782,103	21,034,854
Total accounts receivable	2,968,766,832	2,847,861,605
Less bad debt provision	(2,594,076,336)	(2,509,071,442)
Net accounts receivable	\$ 374,690,496	338,790,163

(4) **Students Notes Receivable, Net**

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 one of the IHL System's institutions.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the IHL System as of June 30, 2016 and 2015:

	Interest rates	June 30, 2016	Current portion	Noncurrent portion
Perkins student loans	3% to 9%	\$ 68,526,797	7,971,332	60,555,465
Institutional loans	0% to 10%	60,471,743	7,960,012	52,511,731
Nursing student loans	3% to 9%	1,394,542	134,227	1,260,315
Dental student loans	3% to 9%	460,519	39,665	420,854
Medical student loans	3% to 9%	169,517	12,772	156,745
Other federal loans	3% to 9%	3,987,580	2,158,859	1,828,721
Total notes receivable		135,010,698	18,276,867	116,733,831
Less allowance for doubtful accounts		(19,197,810)	(2,510,659)	(16,687,151)
Net notes receivable		\$ 115,812,888	15,766,208	100,046,680

	Interest rates	June 30, 2015	Current portion	Noncurrent portion
Perkins student loans	3% to 9%	\$ 70,625,994	9,825,069	60,800,925
Institutional loans	0% to 10%	58,682,966	7,457,245	51,225,721
Nursing student loans	3% to 9%	1,248,872	116,058	1,132,814
Dental student loans	3% to 9%	449,560	28,572	420,988
Medical student loans	3% to 9%	184,033	6,964	177,069
Other federal loans	3% to 9%	3,991,520	2,213,240	1,778,280
Total notes receivable		135,182,945	19,647,148	115,535,797
Less allowance for doubtful accounts		(20,526,758)	(3,806,339)	(16,720,419)
Net notes receivable		\$ 114,656,187	15,840,809	98,815,378

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(5) Capital Assets

A summary of changes in capital assets for the years ended June 30, 2016 and 2015 is presented as follows:

	Balance June 30, 2015	Additions	Deletions/ transfers	Balance June 30, 2016
Nondepreciable capital assets:				
Land	\$ 91,180,637	14,231,043	(1,528,956)	103,882,724
Construction in progress	542,393,985	354,696,182	(245,007,578)	652,082,589
Livestock	1,841,819	277,666	(229,131)	1,890,354
Total nondepreciable capital assets	635,416,441	369,204,891	(246,765,665)	757,855,667
Depreciable capital assets:				
Buildings	3,294,288,590	234,983,187	(4,070,938)	3,525,200,839
Improvements other than buildings	337,478,533	11,099,750	(274,168)	348,304,115
Equipment	798,437,702	59,681,546	(26,470,404)	831,648,844
Library books	390,159,181	13,451,971	(975,896)	402,635,256
Total depreciable assets	4,820,364,006	319,216,454	(31,791,406)	5,107,789,054
Total capital assets	5,455,780,447	688,421,345	(278,557,071)	5,865,644,721
Less accumulated depreciation:				
Buildings	854,704,738	64,791,838	(1,340,141)	918,156,435
Improvements other than buildings	130,261,392	12,136,971	(99,482)	142,298,881
Equipment	556,372,552	56,021,960	(23,866,576)	588,527,936
Library books	329,268,006	14,098,928	(951,919)	342,415,015
Total accumulated depreciation	1,870,606,688	147,049,697	(26,258,118)	1,991,398,267
Net capital assets	\$ 3,585,173,759	541,371,648	(252,298,953)	3,874,246,454

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	Balance June 30, 2014	Additions	Deletions/ transfers	Balance June 30, 2015
Nondepreciable capital assets:				
Land	\$ 87,278,223	3,902,414	—	91,180,637
Construction in progress	494,823,861	272,929,439	(225,359,315)	542,393,985
Livestock	1,717,663	181,646	(57,490)	1,841,819
Total nondepreciable capital assets	<u>583,819,747</u>	<u>277,013,499</u>	<u>(225,416,805)</u>	<u>635,416,441</u>
Depreciable capital assets:				
Buildings	3,072,899,167	227,401,512	(6,012,089)	3,294,288,590
Improvements other than buildings	312,650,876	24,862,215	(34,558)	337,478,533
Equipment	764,548,649	54,942,185	(21,053,132)	798,437,702
Library books	377,501,528	13,534,998	(877,345)	390,159,181
Total depreciable assets	<u>4,527,600,220</u>	<u>320,740,910</u>	<u>(27,977,124)</u>	<u>4,820,364,006</u>
Total capital assets	<u>5,111,419,967</u>	<u>597,754,409</u>	<u>(253,393,929)</u>	<u>5,455,780,447</u>
Less accumulated depreciation:				
Buildings	795,325,438	61,732,419	(2,353,119)	854,704,738
Improvements other than buildings	118,667,841	11,593,551	—	130,261,392
Equipment	516,503,098	57,826,679	(17,957,225)	556,372,552
Library books	315,779,808	14,170,949	(682,751)	329,268,006
Total accumulated depreciation	<u>1,746,276,185</u>	<u>145,323,598</u>	<u>(20,993,095)</u>	<u>1,870,606,688</u>
Net capital assets	<u>\$ 3,365,143,782</u>	<u>452,430,811</u>	<u>(232,400,834)</u>	<u>3,585,173,759</u>

As of June 30, 2016 and 2015, capital assets included assets under capital leases with an original cost basis of approximately \$138.4 million and \$76.8 million, respectively, accumulated amortization of approximately \$6.7 million and \$5.1 million, respectively.

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.

Capital assets	Estimated useful life	Salvage value	Capitalization threshold
Buildings	40 Years	20%	\$ 50,000
Improvements other than buildings	20 Years	20	25,000
Equipment	3–15 Years	1–10	5,000
Library books	10 Years	—	—

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2016 and 2015 are as follows:

	2016	2015
Payable to vendors and contractors	\$ 117,458,587	106,074,065
Accrued salaries, wages and employee withholdings	85,540,285	81,468,870
Accrued interest	4,974,117	4,932,113
Other	6,717,078	13,955,809
Total	<u>\$ 214,690,067</u>	<u>206,430,857</u>

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

(7) Unearned Revenues

Unearned revenues as of June 30, 2016 and 2015 are as follows:

	2016	2015
Unearned summer school revenue	\$ 29,615,464	26,555,132
Unearned grants and contract revenue	43,433,495	38,013,499
Other, principally athletic activities	51,969,942	49,851,057
Total	<u>\$ 125,018,901</u>	<u>114,419,688</u>

All amounts are considered current and will be fully recognized within one year.

(8) Material Blended Component Units of the IHL System

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the educational building corporations are deemed to be material component units of the IHL System but are presented on a blended basis in the accompanying financial statements due to the significance of their activities to respective member universities' operations. These blended component units provide services entirely, or almost entirely, to their respective universities. Condensed financial information as of June 30, 2016 and 2015 is listed in the following schedule.

2016 Condensed Financial Information for Educational Building Corporations								
	ASU	DSU	JSU	MSU	MVSU	UM	USM	UMMC
Current assets	\$ 8,134	—	—	—	—	48,754,192	6,852,892	6,654,876
Noncurrent assets	44,735,599	2,515,000	96,312,644	317,520,000	18,530,000	243,455,494	179,514,598	246,801,871
Total assets	<u>44,743,733</u>	<u>2,515,000</u>	<u>96,312,644</u>	<u>317,520,000</u>	<u>18,530,000</u>	<u>292,209,686</u>	<u>186,367,490</u>	<u>253,456,747</u>
Deferred outflows of resources	—	—	—	—	—	—	—	4,283,040

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

2016 Condensed Financial Information for Educational Building Corporations								
	ASU	DSU	JSU	MSU	MVSU	UM	USM	UMMC
Current liabilities	\$ 1,300,860	535,000	3,123,985	11,225,000	375,000	16,067,910	6,852,892	6,654,875
Noncurrent liabilities	50,204,677	1,980,000	93,188,659	306,295,000	18,155,000	274,012,211	179,514,598	251,230,679
Total liabilities	51,505,537	2,515,000	96,312,644	317,520,000	18,530,000	290,080,121	186,367,490	257,885,554
Total net position	\$ (6,761,804)	—	—	—	—	2,129,565	—	(145,767)
Operating revenues	\$ 2,750,938	—	—	—	1,631,457	—	—	12,001,672
Operating expenses	4,640,915	—	—	—	1,631,457	—	—	11,070,760
Total operating income (loss)	(1,889,977)	—	—	—	—	—	—	930,912
Nonoperating revenues	2	—	4,820,680	14,483,453	—	7,440,535	6,148,288	—
Nonoperating expenses	—	535,000	4,820,680	14,483,453	—	7,440,535	6,148,288	—
Total nonoperating revenue (expenses)	2	(535,000)	—	—	—	—	—	—
Change in net position	\$ (1,889,975)	(535,000)	—	—	—	—	—	930,912

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

2015 Condensed Financial Information for Educational Building Corporations								
	ASU	DSU	JSU	MSU	MVSU	UM	USM	UMMC
Current assets	\$ 91,577	—	—	—	—	21,576,257	6,251,245	6,448,568
Noncurrent assets	40,348,021	3,035,000	99,703,558	327,090,000	17,520,000	140,740,756	176,994,848	249,089,119
Total assets	40,439,598	3,035,000	99,703,558	327,090,000	17,520,000	162,317,013	183,246,093	255,537,687
Deferred outflows of resources	—	—	—	—	—	—	—	4,518,800
Current liabilities	576,844	520,000	3,036,849	9,570,000	335,000	19,704,000	6,251,245	6,451,427
Noncurrent liabilities	44,734,583	2,515,000	96,666,709	317,520,000	17,185,000	142,613,013	176,994,848	257,038,369
Total liabilities	45,311,427	3,035,000	99,703,558	327,090,000	17,520,000	162,317,013	183,246,093	263,489,796
Total net position	\$ (4,871,829)	—	—	—	—	—	—	(3,433,309)
Operating revenues	\$ 2,674,188	—	—	—	1,066,889	—	—	12,225,929
Operating expenses	3,540,788	—	—	—	1,066,889	—	—	11,896,523
Total operating income (loss)	(866,600)	—	—	—	—	—	—	329,406
Nonoperating revenues	8	—	4,512,369	11,113,540	—	5,398,198	7,769,599	—
Nonoperating expenses	—	520,000	4,512,369	11,113,540	—	5,398,198	7,769,599	2,356,630
Total nonoperating revenue (expenses)	8	(520,000)	—	—	—	—	—	(2,356,630)
Change in net position	\$ (866,592)	(520,000)	—	—	—	—	—	(2,027,224)

(9) Long-Term Liabilities

Long-term liabilities of the IHL System consist of notes and bonds payable, capital lease obligations, and certain other liabilities that are expected to be liquidated at least one year from June 30, 2016 and 2015. The various leases cover a period not to exceed five years. The IHL System has the option to prepay all outstanding obligations less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period. Other long-term liabilities and notes payable consist of accrued leave liabilities, deposits refundable, notes payable, pension liability, and other liabilities (government advance refundables, self-insured workers compensation, and tort claims).

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Information regarding original issue amounts, interest rates, and maturity dates for bonds, notes, and capital leases relative to the long-term liabilities for each of the universities within the IHL System as of June 30, 2016 and 2015, is listed in the following schedule.

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Alcorn State University:								
Bonded debt:								
2009 Series A Student Housing Project	\$ 47,000,000	5.13%–5.25%	2040	\$ 45,535,460	—	42,445,460	3,090,000	640,000
2016 Series A	43,630,000	2.00%–5.00%	2040	—	48,463,665	48,128	48,415,537	660,860
Total bonded debt				45,535,460	48,463,665	42,493,588	51,505,537	1,300,860
Other long-term liabilities:								
Pension liability				56,758,259	14,276,573	—	71,034,832	—
Accrued leave liabilities				4,580,386	1,546,723	1,643,501	4,483,608	867,445
Deposits refundable				601,930	61,984	—	663,914	—
Total other long-term liabilities				61,940,575	15,885,280	1,643,501	76,182,354	867,445
Total				\$ 107,476,035	64,348,945	44,137,089	127,687,891	2,168,305
Due within one year							(2,168,305)	
Total long-term liabilities							\$ 125,519,586	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Delta State University:								
Bonded debt:								
2003 Series	\$ 2,475,000	3.00%–4.25%	2024	\$ 1,400,000	—	130,000	1,270,000	135,000
2009 Series	3,135,000	2.50%–3.75%	2019	1,635,000	—	390,000	1,245,000	400,000
Total bonded debt				3,035,000	—	520,000	2,515,000	535,000
Capital leases:								
Infrastructure/Desktop/Hardware				144,622	—	37,160	107,462	37,188
Airplanes				819,663	—	261,317	558,346	273,045
Foundation hall and faculty apartments				15,790,000	—	390,000	15,400,000	400,000
Total capital leases				16,754,285	—	688,477	16,065,808	710,233
Other long-term liabilities:								
Pension liability				33,537,396	8,644,006	—	42,181,402	—
Accrued leave liabilities				1,559,848	—	75,076	1,484,772	238,236
Deposits refundable				133,157	—	4,962	128,195	—
Other				1,798,647	128,389	—	1,927,036	—
Total other long-term liabilities				37,029,048	8,772,395	80,038	45,721,405	238,236
Total				\$ 56,818,333	8,772,395	1,288,515	64,302,213	1,483,469
Due within one year							(1,483,469)	
Total long-term liabilities							\$ 62,818,744	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Jackson State University:								
Bonded debt:								
Series 1982 – Dormitory	\$ 4,000,000	1.00%–3.00%	2021	\$ 975,000	—	150,000	825,000	155,000
Series 2010-A-1	31,325,000	3.00%–5.00%	2034	25,189,816	—	34,990	25,154,826	40,819
Campus Revenue Bond – 2015A	57,595,000	2.00%–5.00%	2045	58,787,216	—	428,925	58,358,291	143,548
Campus Revenue Bond – 2015B	13,065,000	2.60%	2021	13,065,000	—	2,590,000	10,475,000	2,590,000
Total bonded debt				98,017,032	—	3,203,915	94,813,117	2,929,367
Capital leases:								
Buses				1,071,633	—	91,992	979,641	96,739
Other long-term liabilities and notes payable:								
Pension liability				100,387,620	30,452,665	—	130,840,285	—
Accrued leave liabilities				5,355,359	562,806	—	5,918,165	426,108
Deposits refundable				26,410	43,959	—	70,369	—
Federal Portion – Perkins Loan Program				1,760,104	62,908	—	1,823,012	—
Notes payable				614,893	—	95,007	519,886	97,879
Total other long-term liabilities and notes payable				108,144,386	31,122,338	95,007	139,171,717	523,987
Total				\$ 207,233,051	31,122,338	3,390,914	234,964,475	3,550,093
Due within one year							(3,550,093)	
Total long-term liabilities							\$ 231,414,382	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Mississippi State University:								
Bonded debt:								
Dormitory Bonds	\$ 2,250,000	3.00%	2022	\$ 530,000	—	80,000	450,000	85,000
Student Apartments	2,038,000	3.00%	2023	570,000	—	75,000	495,000	75,000
EBC – Revenue Bonds	31,865,000	3.75% –5.25%	2019	4,640,000	—	1,465,000	3,175,000	1,545,000
EBC – Revenue Bonds	58,965,000	4.00% –5.00%	2016	1,835,000	—	1,835,000	—	—
EBC – Revenue Bonds	6,110,000	4.13% –5.00%	2029	4,570,000	—	265,000	4,305,000	280,000
EBC – Revenue Bonds	29,615,000	2.50% –5.25%	2040	27,190,000	—	650,000	26,540,000	675,000
EBC – Revenue Bonds	17,105,000	2.75% –5.00%	2025	11,910,000	—	—	11,910,000	—
EBC – Revenue Bonds	54,370,000	2.00% –5.00%	2043	48,585,000	—	2,040,000	46,545,000	2,120,000
EBC – Revenue Bonds	60,470,000	2.00% –5.00%	2044	59,980,000	—	505,000	59,475,000	525,000
EBC – Revenue Bonds	89,810,000	2.00% –5.00%	2044	89,810,000	—	2,230,000	87,580,000	4,180,000
EBC – Revenue Bonds	23,435,000	0.29% –4.81%	2044	22,560,000	—	580,000	21,980,000	905,000
EBC – Revenue Bonds	56,010,000	2.00% –5.00%	2046	56,010,000	—	—	56,010,000	995,000
Total bonded debt				328,190,000	—	9,725,000	318,465,000	11,385,000
Other long-term liabilities:								
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	—
Other				13,907,544	—	198,447	13,709,097	—
Total other long-term liabilities				416,838,945	111,419,476	198,447	528,059,974	2,081,145
Total				\$ 745,028,945	111,419,476	9,923,447	846,524,974	13,466,145
Due within one year							(13,466,145)	
Total long-term liabilities							\$ 833,058,829	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (Fiscal Year)	Year ended June 30, 2016			Ending balance	Due within one year
				Beginning balance	Additions	Deletions		
Mississippi University for Women:								
Capital leases:								
Various equipment				\$ 517,835	—	142,919	374,916	146,891
Other long-term liabilities:								
Pension liability				27,087,951	8,411,459	—	35,499,410	—
Accrued leave liabilities				1,225,479	33,875	—	1,259,354	50,374
Other				1,114,670	—	107,724	1,006,946	—
Total other long-term liabilities				29,428,100	8,445,334	107,724	37,765,710	50,374
Total				\$ 29,945,935	8,445,334	250,643	38,140,626	197,265
Due within one year							(197,265)	
Total long-term liabilities							\$ 37,943,361	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Mississippi Valley State University:								
Bonded debt:								
EBC – 2007	\$ 19,015,000	4.00%	2037	\$ 17,520,000	—	16,260,000	1,260,000	375,000
EBC – 2015	17,270,000	2.00	2037	—	17,270,000	—	17,270,000	—
Total bonded debt				17,520,000	17,270,000	16,260,000	18,530,000	375,000
Capital lease:								
Equipment				—	407,504	—	407,504	78,690
Other long-term liabilities:								
Pension liability				31,120,964	6,634,221	—	37,755,185	—
Accrued leave liabilities				1,597,550	314,511	—	1,912,061	251,037
Deposits refundable				31,651	—	962	30,689	—
Total other long-term liabilities				32,750,165	6,948,732	962	39,697,935	251,037
Total				\$ 50,270,165	24,626,236	16,260,962	58,635,439	704,727
Due within one year							(704,727)	
Total long-term liabilities							\$ 57,930,712	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Mississippi:								
Bonded debt:								
EBC – 2005	\$ 10,965,000	3.50%–4.38%	2028	\$ 7,015,000	—	7,015,000	—	—
EBC – 2006A	17,985,000	5.00%	2026	9,860,000	—	8,530,000	1,330,000	1,330,000
EBC – 2006B-1	17,290,000	3.63%–5.00%	2027	10,500,000	—	1,030,000	9,470,000	1,065,000
EBC – 2008A	29,785,000	4.00%–4.25%	2034	25,205,000	—	22,415,000	2,790,000	890,000
EBC – 2009A	19,870,000	3.25%–4.50%	2030	16,125,000	—	815,000	15,310,000	840,000
EBC – 2009B	24,165,000	3.62%–5.00%	2021	13,740,000	—	2,010,000	11,730,000	2,125,000
EBC – 2009C	14,770,000	3.00%–4.75%	2035	12,795,000	—	430,000	12,365,000	440,000
EBC – 2011	27,995,000	3.00%–4.75%	2032	28,649,289	—	910,966	27,738,323	883,366
EBC – Series 2015A	15,660,000	2.00%–4.00%	2041	15,660,000	—	100,000	15,560,000	180,000
EBC – Series 2015B	10,125,000	0.90%–3.75%	2031	10,125,000	—	555,000	9,570,000	585,000
EBC – Series 2015C	\$31,630,000	2.00%–5.00%	2047	—	33,706,400	—	33,706,400	773,978
EBC – Series 2015D	\$17,660,000	0.69%–4.45%	2037	—	19,736,399	—	19,736,399	858,978
EBC – Series 2016A	\$33,245,000	2.00%–5.00%	2035	—	33,973,347	—	33,973,347	575,000
Total bonded debt				149,674,289	87,416,146	43,810,966	193,279,469	10,546,322
Capital leases:								
Buildings				14,550,606	36,753,154	3,723,378	47,580,382	3,207,972
Assets under construction				38,246,846	—	—	38,246,846	—
Total capital leases				52,797,452	36,753,154	3,723,378	85,827,228	3,207,972
Other long-term liabilities and notes payable:								
Pension liability				224,435,474	63,437,077	—	287,872,551	—
Accrued leave liabilities				15,905,194	1,014,225	—	16,919,419	1,438,000
Deposits refundable				100,222	—	12,150	88,072	—
Notes payable				—	9,500,000	—	9,500,000	840,191
Other				9,405,200	—	78,500	9,326,700	—
Total other long-term liabilities and notes payable				249,846,090	73,951,302	90,650	323,706,742	2,278,191
Total				\$ 452,317,831	198,120,602	47,624,994	602,813,439	16,032,485
Due within one year							(16,032,485)	
Total long-term liabilities							\$ 586,780,954	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Southern Mississippi:								
Bonded debt:								
The Village	\$ 18,725,000	3.63%–5.00%	2032	\$ 395,000	—	395,000	—	—
EBC Refunding	24,855,000	3.63%–5.00%	2027	1,765,000	—	1,765,000	—	—
Athletic Improvements	27,190,000	4.00%–5.00%	2034	1,115,000	—	535,000	580,000	580,000
Dormitory Construction	49,900,000	2.75%–5.38%	2037	49,785,000	—	47,675,000	2,110,000	335,000
SMBEC Series 2013	51,875,000	2.75%–5.38%	2044	59,307,664	—	1,883,029	57,424,635	985,000
SMEBC Series 2015A	38,600,000	2.00%–5.00%	2034	38,600,000	—	255,000	38,345,000	455,000
SMEBC Series 2015B	16,690,000	0.50%–3.25%	2034	16,690,000	—	375,000	16,315,000	2,165,000
SMEBC Series 2016	58,870,000	2.00%–5.00%	2040	—	70,793,434	—	70,793,434	1,704,911
Total bonded debt				167,657,664	70,793,434	52,883,029	185,568,069	6,224,911
Certificates of Participation								
Parking Garage, Series 2009				14,255,000	—	14,255,000	—	—
Capital leases:								
Various equipment				1,622,805	—	507,479	1,115,326	510,107
Other long-term liabilities and notes payable:								
Pension liability				163,430,215	41,307,930	—	204,738,145	—
Accrued leave liabilities				10,063,335	—	17,353	10,045,982	1,230,000
Deposits refundable				33,223	—	19,680	13,543	—
Notes payable				1,333,429	—	534,008	799,421	627,981
Other				26,701,067	—	118,908	26,582,159	—
Total other long-term liabilities and notes payable				201,561,269	41,307,930	689,949	242,179,250	1,857,981
Total				\$ 385,096,738	112,101,364	68,335,457	428,862,645	8,592,999
Due within one year							(8,592,999)	
Total long-term liabilities							\$ 420,269,646	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Mississippi Medical Center:								
Bonded debt:								
Series 1998B	\$ 41,075,000	3.88%–5.90%	2024	\$ 23,670,000	—	—	23,670,000	—
Series 2009	105,605,000	2.00%–5.00%	2034	84,548,689	—	5,004,405	79,544,284	5,199,405
Series 2010A	24,870,000	5.92%–6.69%	2032	24,870,000	—	—	24,870,000	—
Series 2010B	20,000,000	6.84%	2035	20,000,000	—	—	20,000,000	—
Series 2010C	5,130,000	2.50%–5.00%	2020	2,905,416	—	534,083	2,371,333	564,083
Series 2012A	51,860,000	4.00%–5.00%	2041	51,727,393	—	44,203	51,683,190	44,202
Series 2012B	53,390,000	4.07%–4.82%	2038	54,671,871	—	—	54,671,871	—
Total bonded debt				262,393,369	—	5,582,691	256,810,678	5,807,690
Other long-term liabilities:								
Pension liability				821,435,313	339,073,151	72,947,291	1,087,561,173	—
Accrued leave liabilities				55,047,823	8,371,322	4,712,102	58,707,043	4,394,887
Other				38,043,985	117,892	331,555	37,830,322	4,984,000
Total other long-term liabilities				914,527,121	347,562,365	77,990,948	1,184,098,538	9,378,887
Total				\$ 1,176,920,490	347,562,365	83,573,639	1,440,909,216	15,186,577
Due within one year							(15,186,577)	
Total long-term liabilities							\$ 1,425,722,639	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
IHL Board Office:								
Other long-term liabilities:								
Pension liability				\$ 13,082,977	3,956,286	445,836	16,593,427	—
Accrued leave liabilities				818,152	4,755	—	822,907	34,787
Other				40,648,373	2,842,822	1,681,373	41,809,822	10,084,613
Total				<u>\$ 54,549,502</u>	<u>6,803,863</u>	<u>2,127,209</u>	59,226,156	<u>10,119,400</u>
Due within one year							(10,119,400)	
Total long-term liabilities							<u>\$ 49,106,756</u>	
MCVS:								
Other long-term liabilities:								
Pension liability				\$ 1,092,239	138,876	—	1,231,115	—
Accrued leave liabilities				59,559	6,531	—	66,090	2,400
Total				<u>\$ 1,151,798</u>	<u>145,407</u>	<u>—</u>	1,297,205	<u>2,400</u>
Due within one year							(2,400)	
Total long-term liabilities							<u>\$ 1,294,805</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2016				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
State of Mississippi Institutions of Higher Learning – Combined:								
Total bonded debt				\$ 1,072,022,814	223,943,245	174,479,189	1,121,486,870	39,104,150
Total capital leases				71,692,377	38,232,291	5,154,245	104,770,423	4,750,632
Other long-term liabilities and notes payable:								
Pension liability				1,850,037,000	626,283,305	73,393,127	2,402,927,178	—
Accrued leave liabilities				121,443,859	13,314,365	6,448,032	128,310,192	11,014,419
Deposits refundable				958,228	114,741	37,754	1,035,215	—
Notes payable				16,203,322	9,500,000	14,884,015	10,819,307	1,566,051
Other				134,451,223	3,152,011	3,588,140	134,015,094	15,068,613
Total other long-term liabilities and notes payable				<u>2,123,093,632</u>	<u>652,364,422</u>	<u>98,351,068</u>	<u>2,677,106,986</u>	<u>27,649,083</u>
Total				<u>\$ 3,266,808,823</u>	<u>914,539,958</u>	<u>277,984,502</u>	3,903,364,279	<u>71,503,865</u>
Due within one year							(71,503,865)	
Total noncurrent liabilities							<u>\$ 3,831,860,414</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Alcorn State University:								
Bonded debt:								
2009 Series A Student Housin \$	47,000,000	5.13%–5.25%	2040	\$ 45,858,617	76,843	400,000	45,535,460	576,844
Total bonded debt				45,858,617	76,843	400,000	45,535,460	576,844
Other long-term liabilities:								
Pension liability				64,134,357	885,413	8,261,511	56,758,259	—
Accrued leave liabilities				4,632,504	1,533,580	1,585,698	4,580,386	943,097
Deposits refundable				595,628	6,302	—	601,930	—
Total other long-term liabilities				69,362,489	2,425,295	9,847,209	61,940,575	943,097
Total				\$ 115,221,106	2,502,138	10,247,209	107,476,035	1,519,941
Due within one year							(1,519,941)	
Total long-term liabilities							\$ 105,956,094	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Delta State University:								
Bonded debt:								
2003 Series	\$ 2,475,000	3.00%–4.25%	2024	\$ 1,525,000	—	125,000	1,400,000	130,000
2009 Series	3,135,000	2.50%–3.75%	2019	2,010,000	—	375,000	1,635,000	390,000
Total bonded debt				3,535,000	—	500,000	3,035,000	520,000
Capital leases:								
Infrastructure/Desktop/Hardware				—	151,388	6,766	144,622	35,706
Airplanes				1,069,749	—	250,086	819,663	590,338
Foundation hall and faculty apartments				16,170,000	—	380,000	15,790,000	390,000
Total capital leases				17,239,749	151,388	636,852	16,754,285	1,016,044
Other long-term liabilities:								
Pension liability				37,895,795	523,174	4,881,573	33,537,396	—
Accrued leave liabilities				1,407,533	152,315	—	1,559,848	204,703
Deposits refundable				136,425	—	3,268	133,157	—
Other				1,817,516	—	18,869	1,798,647	—
Total other long-term liabilities				41,257,269	675,489	4,903,710	37,029,048	204,703
Total				\$ 62,032,018	826,877	6,040,562	56,818,333	1,740,747
Due within one year							(1,740,747)	
Total long-term liabilities							\$ 55,077,586	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Jackson State University:								
Bonded debt:								
Series 1982 – Dormitory	\$ 4,000,000	1.00%–3.00%	2021	\$ 1,120,000	—	145,000	975,000	150,000
Series 2006 – A	12,000,000	3.50%–4.25%	2031	9,795,000	—	9,795,000	—	—
Series 2007	48,165,000	5.00%	2034	48,740,571	—	48,740,571	—	—
Series 2010-A-1	31,325,000	3.00%–5.00%	2034	27,009,805	—	1,819,989	25,189,816	(14,181)
Other Borrowings	1,900,000	5.00%	2034	1,095,000	—	1,095,000	—	—
Campus Revenue Bond – 2015A	57,595,000	2.00%–5.00%	2045	—	58,787,216	—	58,787,216	123,549
Campus Revenue Bond – 2015B	13,065,000	0.69%–2.56%	2021	—	13,065,000	—	13,065,000	2,590,000
Total bonded debt				87,760,376	71,852,216	61,595,560	98,017,032	2,849,368
Other long-term liabilities and notes payable:								
Pension liability				113,433,632	1,566,019	14,612,031	100,387,620	—
Accrued leave liabilities				5,322,123	33,236	—	5,355,359	385,586
Deposits refundable				24,207	2,203	—	26,410	—
Federal Portion – Perkins Loan Program				1,683,435	76,669	—	1,760,104	—
Capital leases and other				—	1,126,518	54,885	1,071,633	92,474
Notes payable				707,113	—	92,220	614,893	95,007
Total other long-term liabilities and notes payable				121,170,510	2,804,645	14,759,136	109,216,019	573,067
Total				\$ 208,930,886	74,656,861	76,354,696	207,233,051	3,422,435
Due within one year							(3,422,435)	
Total long-term liabilities							\$ 203,810,616	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Mississippi State University:								
Bonded debt:								
Dormitory Bonds	\$ 2,250,000	3.00%	2021	\$ 610,000	—	80,000	530,000	80,000
Student Apartments	2,038,000	3.00%	2022	640,000	—	70,000	570,000	75,000
EBC – Revenue Bonds	31,865,000	3.75%–5.25%	2018	6,025,000	—	1,385,000	4,640,000	1,465,000
EBC – Revenue Bonds	17,000,000	2.00%–5.00%	2029	595,000	—	595,000	—	—
EBC – Revenue Bonds	28,790,000	2.00%–5.00%	2030	1,625,000	—	1,625,000	—	—
EBC – Revenue Bonds	58,965,000	4.00%–5.00%	2036	3,585,000	—	1,750,000	1,835,000	1,835,000
EBC – Revenue Bonds	6,110,000	4.50%–4.75%	2028	4,825,000	—	255,000	4,570,000	265,000
EBC – Revenue Bonds	29,615,000	3.00%–5.25%	2029	27,820,000	—	630,000	27,190,000	650,000
EBC – Revenue Bonds	17,105,000	3.00%–5.25%	2024	11,910,000	—	—	11,910,000	—
EBC – Revenue Bonds	54,370,000	2.00%–5.00%	2042	50,555,000	—	1,970,000	48,585,000	2,040,000
EBC – Revenue Bonds	60,470,000	2.00%–5.00%	2044	60,470,000	—	490,000	59,980,000	505,000
EBC – Revenue Bonds	89,810,000	2.00%–5.00%	2044	89,810,000	—	—	89,810,000	2,230,000
EBC – Revenue Bonds	23,435,000	0.29%–5.00%	2044	23,435,000	—	875,000	22,560,000	580,000
EBC – Revenue Bonds	56,010,000	2.00%–5.00%	2045	—	56,010,000	—	56,010,000	—
Total bonded debt				281,905,000	56,010,000	9,725,000	328,190,000	9,725,000
Other long-term liabilities:								
Pension liability				426,749,039	5,891,523	54,971,970	377,668,592	—
Accrued leave liabilities				24,105,527	1,125,647	—	25,231,174	1,905,475
Deposits refundable				30,305	1,330	—	31,635	—
Other				13,837,235	70,309	—	13,907,544	—
Total other long-term liabilities				464,722,106	7,088,809	54,971,970	416,838,945	1,905,475
Total				\$ 746,627,106	63,098,809	64,696,970	745,028,945	11,630,475
Due within one year							(11,630,475)	
Total long-term liabilities							\$ 733,398,470	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Mississippi University for Women:								
Capital leases:								
Various equipment				\$ 656,889	—	139,054	517,835	142,919
Other long-term liabilities:								
Pension liability				30,608,204	422,564	3,942,817	27,087,951	—
Accrued leave liabilities				1,182,846	42,633	—	1,225,479	49,019
Other				1,184,812	—	70,142	1,114,670	—
Total other long-term liabilities				32,975,862	465,197	4,012,959	29,428,100	49,019
Total				\$ 33,632,751	465,197	4,152,013	29,945,935	191,938
Due within one year							(191,938)	
Total long-term liabilities							\$ 29,753,997	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
Mississippi Valley State University:								
Bonded debt:								
EBC – 2007	\$ 19,015,000	4.00%	2037	\$ 17,810,000	—	290,000	17,520,000	335,000
Total bonded debt				17,810,000	—	290,000	17,520,000	335,000
Other long-term liabilities:								
Pension liability				35,165,332	485,478	4,529,846	31,120,964	—
Accrued leave liabilities				1,554,476	43,074	—	1,597,550	267,096
Deposits refundable				30,258	2,665	1,272	31,651	—
Total other long-term liabilities				36,750,066	531,217	4,531,118	32,750,165	267,096
Total				\$ 54,560,066	531,217	4,821,118	50,270,165	602,096
Due within one year							(602,096)	
Total long-term liabilities							\$ 49,668,069	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Mississippi:								
Bonded debt:								
EBC – 2005	\$ 10,965,000	3.00%–4.38%	2028	\$ 7,415,000	—	400,000	7,015,000	420,000
EBC – 2006A	17,985,000	4.00%–5.00%	2026	11,075,000	—	1,215,000	9,860,000	1,275,000
EBC – 2006B-1	17,290,000	3.50%–5.00%	2027	11,495,000	—	995,000	10,500,000	1,030,000
EBC – 2008A	29,785,000	3.25%–5.00%	2034	26,030,000	—	825,000	25,205,000	855,000
EBC – 2009A	19,870,000	2.13%–4.50%	2030	16,915,000	—	790,000	16,125,000	815,000
EBC – 2009B	24,165,000	3.00%–5.00%	2021	15,655,000	—	1,915,000	13,740,000	2,010,000
EBC – 2009C	14,770,000	2.50%–4.75%	2035	13,210,000	—	415,000	12,795,000	430,000
EBC – 2011	27,995,000	2.00%–5.00%	2032	29,030,450	347,927	729,088	28,649,289	818,366
EBC – Series 2015A	15,660,000	2.00%–4.00%	2040	—	15,660,000	—	15,660,000	100,000
EBC – Series 2015B	10,125,000	0.50%–3.75%	2030	—	10,125,000	—	10,125,000	555,000
Total bonded debt				130,825,450	26,132,927	7,284,088	149,674,289	8,308,366
Capital leases:								
Buildings				—	15,005,536	454,930	14,550,606	908,751
Assets under construction				13,403,451	40,214,740	15,371,345	38,246,846	441,924
Total capital leases				13,403,451	55,220,276	15,826,275	52,797,452	1,350,675
Other long-term liabilities and notes payable:								
Pension liability				253,602,291	3,501,129	32,667,946	224,435,474	—
Accrued leave liabilities				14,759,207	1,145,987	—	15,905,194	1,692,000
Deposits refundable				95,972	4,250	—	100,222	—
Notes payable				99,985	—	99,985	—	—
Other				9,233,300	171,900	—	9,405,200	—
Total other long-term liabilities and notes payable				277,790,755	4,823,266	32,767,931	249,846,090	1,692,000
Total				\$ 422,019,656	86,176,469	55,878,294	452,317,831	11,351,041
Due within one year							(11,351,041)	
Total long-term liabilities							\$ 440,966,790	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Southern Mississippi								
Bonded debt:								
The Village	\$ 18,725,000	3.63%–5.00%	2032	\$ 16,975,000	—	16,580,000	395,000	395,000
EBC Refunding	24,855,000	3.63%–5.00%	2027	19,235,000	—	17,470,000	1,765,000	1,765,000
Athletic Improvements	27,190,000	4.00%–5.00%	2034	25,120,000	—	24,005,000	1,115,000	535,000
Dormitory Construction	49,900,000	2.75%–5.38%	2037	49,900,000	—	115,000	49,785,000	225,000
SMBEC Series 2013	51,875,000	2.75%–5.38%	2044	55,794,678	4,289,586	776,600	59,307,664	1,852,237
SMEBC Series 2015A	38,600,000	2.00%–5.00%	2034	—	38,600,000	—	38,600,000	255,000
SMEBC Series 2015B	16,690,000	0.50%–3.25%	2027	—	16,690,000	—	16,690,000	375,000
Total bonded debt				167,024,678	59,579,586	58,946,600	167,657,664	5,402,237
Certificates of Participation								
Parking Garage, Series 2009	15,520,000	2.00%–5.13%	2040	14,560,000	—	305,000	14,255,000	315,000
Capital leases:								
Various equipment				2,140,990	—	518,185	1,622,805	507,480
Other long-term liabilities and notes payable:								
Pension liability				184,669,016	2,549,465	23,788,266	163,430,215	—
Accrued leave liabilities				9,990,189	205,734	132,588	10,063,335	1,180,000
Deposits refundable				32,743	10,400	9,920	33,223	—
Notes payable				1,787,632	—	454,203	1,333,429	534,008
Other				26,735,912	—	34,845	26,701,067	—
Total other long-term liabilities and notes payable				223,215,492	2,765,599	24,419,822	201,561,269	1,714,008
Total				\$ 406,941,160	62,345,185	84,189,607	385,096,738	7,938,725
Due within one year							(7,938,725)	
Total long-term liabilities							\$ 377,158,013	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
University of Mississippi Medical Center:								
Bonded debt:								
Series 1998B	\$ 41,075,000	3.88%–5.90%	2024	\$ 23,670,000	—	—	23,670,000	—
Series 2009	105,605,000	2.00%–5.00%	2034	89,363,094	—	4,814,405	84,548,689	5,004,405
Series 2010A	24,870,000	5.92%–6.69%	2032	24,870,000	—	—	24,870,000	—
Series 2010B	20,000,000	6.84%	2035	20,000,000	—	—	20,000,000	—
Series 2010C	5,130,000	2.50%–5.00%	2020	3,424,499	—	519,083	2,905,416	534,083
Series 2012A	51,860,000	4.00%–5.00%	2041	51,771,595	—	44,202	51,727,393	44,202
Series 2012B	53,390,000	4.07%–4.82%	2038	54,671,871	—	—	54,671,871	—
Total bonded debt				267,771,059	—	5,377,690	262,393,369	5,582,690
Other long-term liabilities:								
Pension liability				928,186,080	12,814,159	119,564,926	821,435,313	—
Accrued leave liabilities				51,948,891	7,514,760	4,415,828	55,047,823	4,277,538
Other				37,763,769	831,610	551,394	38,043,985	4,827,000
Total other long-term liabilities				1,017,898,740	21,160,529	124,532,148	914,527,121	9,104,538
Total				\$ 1,285,669,799	21,160,529	129,909,838	1,176,920,490	14,687,228
Due within one year							(14,687,228)	
Total long-term liabilities							\$ 1,162,233,262	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
IHL Board Office:								
Other long-term liabilities:								
Pension liability				\$ 14,783,193	204,091	1,904,307	13,082,977	—
Accrued leave liabilities				795,429	22,723	—	818,152	58,328
Other				38,406,103	4,659,270	2,417,000	40,648,373	10,206,293
Total				<u>\$ 53,984,725</u>	<u>4,886,084</u>	<u>4,321,307</u>	<u>54,549,502</u>	<u>10,264,621</u>
Due within one year							(10,264,621)	
Total long-term liabilities							<u>\$ 44,284,881</u>	
MCVS:								
Other long-term liabilities:								
Pension liability				\$ 1,234,182	17,039	158,982	1,092,239	—
Accrued leave liabilities				69,517	—	9,958	59,559	6,095
Total				<u>\$ 1,303,699</u>	<u>17,039</u>	<u>168,940</u>	<u>1,151,798</u>	<u>6,095</u>
Due within one year							(6,095)	
Total long-term liabilities							<u>\$ 1,145,703</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Description and purpose	Original issue	Annual interest rate	Maturity (fiscal year)	Year ended June 30, 2015				
				Beginning balance	Additions	Deletions	Ending balance	Due within one year
State of Mississippi Institutions of Higher Learning – Combined:								
Total bonded debt				\$ 1,002,490,180	213,651,572	144,118,938	1,072,022,814	33,299,505
Total capital leases				33,441,079	55,371,664	17,120,366	71,692,377	3,017,118
Other long-term liabilities and notes payable:								
Pension liability				2,090,461,121	28,860,054	269,284,175	1,850,037,000	—
Accrued leave liabilities				115,768,242	11,819,689	6,144,072	121,443,859	10,968,937
Deposits refundable				945,538	27,150	14,460	958,228	—
Notes payable				17,154,730	—	951,408	16,203,322	944,015
Other				130,662,082	6,936,276	3,147,135	134,451,223	15,125,767
Total other long-term liabilities and notes payable				2,354,991,713	47,643,169	279,541,250	2,123,093,632	27,038,719
Total				\$ 3,390,922,972	316,666,405	440,780,554	3,266,808,823	63,355,342
Due within one year							(63,355,342)	
Total noncurrent liabilities							\$ 3,203,453,481	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The annual debt service requirements for the outstanding debt as of June 30, 2016 for each of the respective universities within the IHL system are as follows:

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
Alcorn State University:					
2017	\$ 1,300,860	—	—	1,749,592	3,050,452
2018	720,000	—	—	1,858,700	2,578,700
2019	815,000	—	—	1,820,325	2,635,325
2020	915,000	—	—	1,781,650	2,696,650
2021	1,130,000	—	—	1,740,750	2,870,750
2022–2026	7,255,000	—	—	7,926,300	15,181,300
2027–2031	10,115,000	—	—	5,836,625	15,951,625
2032–2036	12,845,000	—	—	3,353,750	16,198,750
2037–2041	16,409,677	—	—	856,025	17,265,702
Totals	\$ 51,505,537	—	—	26,923,717	78,429,254

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
Delta State University:					
2017	\$ 535,000	710,233	—	785,649	2,030,882
2018	555,000	744,035	—	739,531	2,038,566
2019	580,000	467,994	—	690,750	1,738,744
2020	155,000	455,000	—	658,663	1,268,663
2021	160,000	470,000	—	634,162	1,264,162
2022–2026	530,000	2,670,000	—	2,763,195	5,963,195
2027–2031	—	3,325,000	—	2,072,840	5,397,840
2032–2036	—	4,190,000	—	1,206,404	5,396,404
2037–2041	—	3,033,546	—	208,166	3,241,712
Totals	\$ 2,515,000	16,065,808	—	9,759,360	28,340,168

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
Jackson State University:					
2017	\$ 2,929,367	96,739	97,879	4,448,074	7,572,059
2018	3,348,915	101,200	100,837	4,378,276	7,929,228
2019	3,433,915	105,867	103,885	4,284,975	7,928,642
2020	3,533,915	110,750	107,025	4,175,960	7,927,650
2021	3,663,915	115,858	110,260	4,036,774	7,926,807
2022–2026	21,364,575	449,227	—	17,035,454	38,849,256
2027–2031	27,654,575	—	—	10,707,950	38,362,525
2032–2036	22,097,542	—	—	3,219,000	25,316,542
2037–2041	3,626,880	—	—	710,000	4,336,880
2042–2046	3,159,518	—	—	208,000	3,367,518
Totals	\$ 94,813,117	979,641	519,886	53,204,463	149,517,107

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

<u>University – fiscal year</u>	<u>Bonded debt</u>	<u>Capital leases</u>	<u>Notes payable</u>	<u>Interest</u>	<u>Total</u>
Mississippi State University:					
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
2042–2046	35,500,000	—	—	2,626,307	38,126,307
Totals	<u>\$ 318,465,000</u>	<u>—</u>	<u>—</u>	<u>210,054,725</u>	<u>528,519,725</u>

<u>University – fiscal year</u>	<u>Bonded debt</u>	<u>Capital leases</u>	<u>Notes payable</u>	<u>Interest</u>	<u>Total</u>
Mississippi University for Women:					
2017	\$ —	146,891	—	9,341	156,232
2018	—	150,973	—	5,259	156,232
2019	—	77,052	—	1,063	78,115
Totals	<u>\$ —</u>	<u>374,916</u>	<u>—</u>	<u>15,663</u>	<u>390,579</u>

<u>University – fiscal year</u>	<u>Bonded debt</u>	<u>Capital leases</u>	<u>Notes payable</u>	<u>Interest</u>	<u>Total</u>
Mississippi Valley State University:					
2017	\$ 375,000	78,690	—	992,836	1,446,526
2018	255,000	79,466	—	857,060	1,191,526
2019	585,000	81,264	—	1,176,762	1,843,026
2020	625,000	83,102	—	1,199,623	1,907,725
2021	675,000	84,982	—	1,231,642	1,991,624
2022–2026	3,325,000	—	—	5,821,055	9,146,055
2027–2031	4,570,000	—	—	6,519,387	11,089,387
2032–2036	6,525,000	—	—	7,566,088	14,091,088
2037–2041	1,595,000	—	—	1,654,813	3,249,813
Totals	<u>\$ 18,530,000</u>	<u>407,504</u>	<u>—</u>	<u>27,019,266</u>	<u>45,956,770</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
University of Mississippi:					
2017	\$ 10,546,322	3,207,972	840,191	9,929,284	24,523,769
2018	10,421,322	3,280,544	865,671	9,597,320	24,164,857
2019	10,802,744	3,355,399	888,360	9,172,735	24,219,238
2020	10,208,218	3,432,607	911,643	8,749,645	23,302,113
2021	10,663,218	3,635,524	935,537	8,277,460	23,511,739
2022–2026	46,621,854	25,515,286	5,058,598	33,809,946	111,005,684
2027–2031	46,427,051	21,029,757	—	19,525,116	86,981,924
2032–2036	27,091,717	22,370,139	—	7,850,517	57,312,373
2037–2041	12,007,094	—	—	3,103,225	15,110,319
2042–2046	8,489,929	—	—	1,064,250	9,554,179
Totals	\$ 193,279,469	85,827,228	9,500,000	111,079,498	399,686,195

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
University of Southern Mississippi:					
2017	\$ 6,224,911	510,107	627,981	7,259,641	14,622,640
2018	4,440,000	512,752	171,440	7,040,214	12,164,406
2019	4,765,000	92,467	—	6,933,915	11,791,382
2020	5,135,000	—	—	6,801,509	11,936,509
2021	5,465,000	—	—	6,673,651	12,138,651
2022–2026	27,085,000	—	—	30,189,101	57,274,101
2027–2031	37,920,000	—	—	23,231,851	61,151,851
2032–2036	43,765,000	—	—	13,288,050	57,053,050
2037–2041	22,750,000	—	—	5,105,638	27,855,638
2042–2046	28,018,158	—	—	663,250	28,681,408
Totals	\$ 185,568,069	1,115,326	799,421	107,186,820	294,669,636

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
University of Mississippi:					
Medical Center:					
2017	5,807,690	—	—	12,639,163	18,446,853
2018	6,092,690	—	—	12,352,975	18,445,665
2019	6,372,690	—	—	12,071,138	18,443,828
2020	6,672,690	—	—	11,769,750	18,442,440
2021	6,983,607	—	—	11,460,646	18,444,253
2022–2026	38,808,036	—	—	51,694,631	90,502,667
2027–2031	47,088,036	—	—	41,072,983	88,161,019
2032–2036	60,659,226	—	—	27,532,961	88,192,187
2037–2041	78,326,013	—	—	10,823,689	89,149,702
Totals	\$ 256,810,678	—	—	191,417,936	448,228,614

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

University – fiscal year	Bonded debt	Capital leases	Notes payable	Interest	Total
State of Mississippi – Institutions of Higher Learning:					
2017	\$ 39,104,150	4,750,632	1,566,051	51,823,904	97,244,737
2018	35,607,927	4,868,970	1,137,948	50,508,091	92,122,936
2019	37,549,349	4,180,043	992,245	49,481,849	92,203,486
2020	37,809,823	4,081,459	1,018,668	48,092,999	91,002,949
2021	39,735,740	4,306,364	1,045,797	46,583,469	91,671,370
2022–2026	202,294,465	28,634,513	5,058,598	204,170,313	440,157,889
2027–2031	228,314,662	24,354,757	—	150,960,136	403,629,555
2032–2036	232,688,485	26,560,139	—	93,069,669	352,318,293
2037–2041	193,214,664	3,033,546	—	37,409,211	233,657,421
2042–2046	75,167,605	—	—	4,561,807	79,729,412
Totals	\$ 1,121,486,870	104,770,423	10,819,307	736,661,448	1,973,738,048

(a) *Alcorn State University*

In March of 2016, the University issued bonds totaling \$43,630,000 (Series 2016 A) to advance refunding and defeasing for interest rate savings of the outstanding ASU EBC, Series 2009A and to pay the related costs of the issuance, sale and delivery of the Series 2016 Bonds. The bonds bear interest at rates ranging from 2.00% to 5.00% with final maturity in September 2039. The advance refunding of the ASU EBC, Series 2009A bond will result in a difference in cash flow between the new debt and old debt of approximately \$5,600,000 and resulted in an economic gain of approximately \$4,000,000. The University paid approximately \$500,000 in fees and reported the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow of resources, which will be recognized as a component of interest expense over the remaining life of the new debt.

(b) *Mississippi Valley State University*

On September 30, 2015, the University finalized Education Building Corporation Bond Series 2015 for \$17,270,000 to retire \$15,925,000 in callable Education Building Corporation Bond Series 2007. On May 19, 2016, the University also finalized the Series 2016A Master Lease Purchase Agreement.

(c) *University of Mississippi*

In November 2015, the University issued bonds totaling \$31,630,000 (Series 2015C) and \$17,660,000 (Series 2015D) for the construction, equipping and landscaping of an additional student residential housing facilities and for expansion and related infrastructure improvements to Vaught-Hemingway Stadium, respectively. These issues included premiums of \$2,076,400, and \$2,076,399, respectively. In May 2016, the University issued bonds totaling \$33,245,000 (Series 2016A) to refund and advance refund the Series 2005A, Series 2006A and Series 2008A bonds, and included a premium of \$728,347. Outstanding coupons of the Series 2015C bear interest at rates ranging from 2.00% to 5.00% payable semiannually with final maturity in November 2046. Outstanding coupons of the Series 2015D bear interest at rates ranging from 0.69% to 4.452% payable semiannually with final maturity in November 2036. Outstanding coupons of the Series 2016A bear interest at rates ranging from 2.00% to 5.00% payable semiannually with final maturity in October 2034. The refunding and advance refunding of the Series 2005A, Series 2006A and Series 2008A bonds will result in a difference in cash flow between the new debt and old debt of approximately \$5,700,000 and resulted in an economic

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

gain of approximately \$2,200,000. The University paid approximately \$200,000 in fees and reported the difference between the reacquisition price and the net carrying amount of the old debt as a deferred inflow of resources, which will be recognized as a component of interest expense over the remaining life of the old debt.

(d) *University of Southern Mississippi*

In February of 2016, the University issued bonds totaling \$58,870,000 (Series 2016) for refunding portions of SMEBC bonds issued in February 2009 (Series 2009) and all of the Certificates of Participation issued through the University of Southern Mississippi Real Estate Foundation in November 2009 (Series 2009). Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in September 2039. The refunding of the SMEBC bonds and the Certificates of Participation will result in a difference in cash flow between the new debt and old debt of approximately \$9,800,000 and resulted in an economic gain of approximately \$5,600,000. The University paid approximately \$300,000 in fees and reported the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow of resources, which will be recognized as a component of interest expense over the remaining life of the old debt.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(10) Natural Classifications with Functional Classifications

The IHL System's operating expenses by functional classification were as follows for the years ended June 30, 2016 and 2015:

Functional classification	2016									
	Salaries and wages	Fringe benefits	Travel	Contractual services	Utilities	Scholarships and fellowships	Commodities	Depreciation expense	Other	Total
Instruction	\$ 455,167,283	161,139,275	11,197,362	43,000,448	189,578	3,949,040	16,494,578	—	2,036,294	693,173,858
Research	168,277,896	64,863,693	9,184,678	57,247,377	2,935,871	1,605,999	21,193,867	—	728,027	326,037,408
Public service	86,291,312	32,453,980	7,008,556	30,189,901	868,325	375,728	7,695,762	—	27,164	164,910,728
Academic support	80,256,012	27,399,105	3,171,993	25,980,462	479,745	339,289	13,933,283	—	474,957	152,034,846
Student services	46,563,005	16,180,069	4,562,994	11,657,884	167,905	169,254	6,184,133	—	98,855	85,584,099
Institutional support	140,990,665	49,272,566	2,783,403	104,456,186	241,420	4,545,279	25,503,888	—	3,659,449	331,452,856
Operation of plant	53,324,794	22,411,790	143,034	47,771,352	43,100,144	—	7,812,685	—	2,301,870	176,865,669
Student aid	4,358,548	3,821,773	56,062	547,646	—	170,852,938	169,565	—	—	179,806,532
Auxiliary enterprises	75,475,935	23,576,908	16,238,277	82,493,794	15,904,514	20,708,055	19,537,315	5,487	67,298	254,007,583
Depreciation	—	—	—	—	—	—	—	147,044,210	—	147,044,210
Hospital	469,158,933	153,570,336	3,066,441	95,259,546	968,448	—	259,046,269	—	—	981,069,973
Loan fund expense	—	—	—	—	—	—	—	—	512,543	512,543
	1,579,864,383	554,689,495	57,412,800	498,604,596	64,855,950	202,545,582	377,571,345	147,049,697	9,906,457	3,492,500,305
Elimination entities	—	—	—	(52,699,905)	—	(27,867,856)	—	—	—	(80,567,761)
Total operating expenses	<u>\$ 1,579,864,383</u>	<u>554,689,495</u>	<u>57,412,800</u>	<u>445,904,691</u>	<u>64,855,950</u>	<u>174,677,726</u>	<u>377,571,345</u>	<u>147,049,697</u>	<u>9,906,457</u>	<u>3,411,932,544</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Functional classification	2015									
	Salaries and wages	Fringe benefits	Travel	Contractual services	Utilities	Scholarships and fellowships	Commodities	Depreciation expense	Other	Total
Instruction	\$ 454,396,419	130,347,994	11,139,841	39,604,733	183,001	1,155,815	16,293,817	—	1,406,958	654,528,578
Research	141,269,009	47,856,569	8,886,500	57,353,221	3,099,134	689,802	25,028,823	—	275,026	284,458,084
Public service	81,154,750	25,160,088	6,671,696	29,594,040	935,114	227,956	9,883,756	—	29,400	153,656,800
Academic support	79,467,984	22,607,491	3,345,134	30,968,507	532,676	45,051	11,967,473	—	265,136	149,199,452
Student services	44,775,402	13,404,359	4,299,607	10,667,216	152,205	304,186	6,373,900	—	49,482	80,026,357
Institutional support	134,555,812	36,323,259	2,715,446	103,804,014	115,491	334,503	26,568,701	—	3,030,916	307,448,142
Operation of plant	52,317,652	17,387,120	109,723	41,554,654	48,343,133	—	8,980,349	—	378,049	169,070,680
Student aid	4,441,974	3,622,630	27,195	1,196,569	2,267,339	176,137,190	272,684	—	—	187,965,581
Auxiliary enterprises	68,917,618	18,975,847	14,990,607	85,414,778	13,573,870	17,851,689	24,379,699	4,353	823,207	244,931,668
Depreciation	—	—	—	—	—	—	—	144,505,081	—	144,505,081
Hospital	436,569,554	113,030,777	2,868,844	88,770,582	1,220,337	—	227,756,596	—	—	870,216,690
Loan fund expense	—	—	—	—	—	—	—	—	1,120,042	1,120,042
	1,497,866,174	428,716,134	55,054,593	488,928,314	70,422,300	196,746,192	357,505,798	144,509,434	7,378,216	3,247,127,155
Elimination entities	—	—	—	(52,731,303)	—	(24,083,137)	—	—	—	(76,814,440)
Total operating expenses	<u>\$ 1,497,866,174</u>	<u>428,716,134</u>	<u>55,054,593</u>	<u>436,197,011</u>	<u>70,422,300</u>	<u>172,663,055</u>	<u>357,505,798</u>	<u>144,509,434</u>	<u>7,378,216</u>	<u>3,170,312,715</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(11) 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 noncancelable operating leases for the next five years:

	<u>Amount</u>
Years ending June 30, 2016:	
2017	\$ 24,437,854
2018	22,815,785
2019	20,957,596
2020	17,930,425
2021	17,197,036
2022–2026	51,540,460
2027–2031	46,664,624
2032–2036	<u>5,850,000</u>
Total minimum payments required	<u>\$ 207,393,780</u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the years ended June 30, 2016 and 2015 approximated \$28.7 million and \$26.4 million, respectively.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(12) Construction Commitments and Financing

The IHL System has contracted for various construction projects as of June 30, 2016. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Remaining estimated cost to complete	Funded by			
		Federal sources	State sources	Institutional sources	Other
Alcorn State University	\$ 12,283,259	—	12,283,259	—	—
Delta State University	1,858,722	—	1,858,722	—	—
Jackson State University	21,093,151	—	21,093,151	—	—
Mississippi State University	473,358,324	8,532,729	114,043,107	292,904,176	57,878,312
Mississippi University for Women	48,031	—	—	48,031	—
Mississippi Valley State University	16,771,940	—	16,771,940	—	—
University of Mississippi	335,267,700	3,492,600	34,393,500	255,016,700	42,364,900
University of Southern Mississippi	52,806,486	9,486,300	27,655,490	15,664,696	—
University of Mississippi Medical Center	82,861,747	9,248,627	38,152,735	25,899,287	9,561,098
Totals	\$ 996,349,360	30,760,256	266,251,904	589,532,890	109,804,310

(13) Donor Restricted Endowments

The net appreciation on investments of donor restricted endowments that is available for authorization for expenditure approximated \$50.6 million and \$57.8 million as of June 30, 2016 and 2015, respectively. These amounts are included in the accompanying statement of net position in “net position – expendable for other purposes”, and “net position – expendable for scholarships and fellowships”.

Most endowments operate on the total-return concept as permitted by the Uniform Prudent Management of Institutional Funds Act (Sections 79-11-701 through 79-11-719, MS Code, Ann. 1972) of 2006. The annual rate for spendable transfers, distributed annually, is 4% of the investment pool’s average unit value over the 36-month period.

(14) Pension and Other Employee Benefit Plans

The Public Employees’ Retirement System of Mississippi (PERS) maintains the following separately administered pension plans:

Plan type	Plan name
Multiple-employer, defined benefit	PERS Defined Benefit Plan
Multiple-employer, defined contribution	Optional Retirement Plan (ORP) Defined Contribution Plan

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The employees of the IHL System 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, 2015 and 2014.

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

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

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

Disclosures under GASB 68

The pension disclosures that follow for fiscal years 2016 and 2015 include all disclosures for GASB 68 using the latest valuation reports available (June 30, 2015). For fiscal year 2016, the measurement date for the PERS defined benefit plan is June 30, 2015. For fiscal year 2015, the measurement date for the PERS defined benefit plan is June 30, 2014. The IHL System is presenting net pension liability as of June 30, 2015 and 2014 for the fiscal year 2016 and 2015 financials.

(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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

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 IHL System's contractually required contribution rate for the years ended June 30, 2016 and 2015, was 15.75% for each year of annual payroll. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20% 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 IHL System are recognized when legally due, based on statutory requirements.

Employer Contributions

The IHL System'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 IHL System that are not representative of future

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

contribution effort are excluded in the determination of employers' proportionate shares. 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 following table provides the IHL System's contributions used in the determination of the IHL System's proportionate share of collective pension amount reported:

Plan	Proportionate share of contributions	Allocation percentage of proportionate share of collective pension amount	Change in proportionate share of collective pension amount
PERS Defined Benefit Plan:			
2016	152,960,567	15.54%	0.30%
2015	146,685,017	15.24	0.34

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 IHL System's target asset allocation as of June 30, 2016 and 2015 are summarized in the following table:

Asset class	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)
	<u>100.00%</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Net Pension Liability

The IHL System's proportion of the net pension liability at June 30, 2016 and 2015 is as follows (dollars in thousands):

Plan	IHL Sytem's proportion of net pension liability	IHL System's proportionate share of net pension liability
PERS:		
2016	15.54%	\$ 2,402,927
2015	15.24	1,850,037

Discount Rate

For the years ended June 30, 2016 and 2015, the discount rate used to measure the total pension liability was 7.75% and 8.00%, respectively. 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, 2016 and 2015. 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 Net Pension Liability to Changes in the Discount Rate

The following tables presents IHL System's proportionate share of the net pension liability of the cost-sharing plan for 2016 and 2015, calculated using the discount rate of 7.75% and 8.00%, respectively, as well as what the IHL System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75% and 7.00%) or 1-percentage-point higher (8.75% and 9.00%) than the current rate (amounts in thousands):

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
IHL System proportionate share of net pension liability:			
2016	\$ 3,167,359	2,402,927	1,768,704

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	1% Decrease (7.00%)	Current discount rate (8.00%)	1% Increase (9.00%)
IHL System proportionate share of net pension liability:			
2015	\$ 2,522,152	1,850,037	1,289,393

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 last experience study was performed on data through June 30, 2014, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The following table provides a summary of the actuarial methods and assumptions used to determine the contribution rate reported for PERS for the years ended June 30, 2016 and 2015:

	2016	2015
Valuation date	June 30, 2015	June 30, 2014
Asset valuation method	Market value	Market Value
Actuarial assumptions:		
Inflation rate	3.00%	3.50%
Salary increases	3.75	4.25
Investment rate of return	7.75	8.00

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, 2016 and 2015, the IHL System's proportionate share of pension expense was \$159.2 million and \$153.0 million, respectively, related to the PERS defined benefit plan.

Deferred outflows of resources were related to differences between expected and actual experience 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 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

See the following table for deferred outflows and inflows of resources for the IHL System:

2016							
Deferred outflows					Deferred inflows		
		Changes in proportion and differences between employer contributions and proportionate share of contributions			Net difference between projected and actual investment earnings on pension plan investments		
	Differences between expected and actual experience	Changes of assumptions	Contributions subsequent to the measurement date	Total deferred outflows of resources		Total deferred inflows of resources	
Alcorn State University	\$ 1,660,109	6,119,415	1,207,537	4,578,969	13,566,030	3,120,331	3,120,331
Delta State University	984,132	3,633,785	123,279	2,629,908	7,371,104	1,565,206	1,565,206
Jackson State University	3,016,716	11,275,389	(692,177)	8,653,220	22,253,148	2,778,380	2,778,380
Mississippi State University	11,276,490	42,006,774	6,830,389	32,082,720	92,196,373	12,528,421	12,528,421
Mississippi University for Women	816,880	3,058,149	1,006,883	2,316,938	7,198,850	867,858	867,858
Mississippi Valley State University	891,877	3,252,479	129,325	2,491,943	6,765,624	2,438,277	2,438,277
University of Mississippi	6,666,773	24,799,241	4,505,096	18,587,600	54,558,710	7,556,549	7,556,549
University of Southern Mississippi	4,783,208	17,637,499	1,017,858	13,009,957	36,448,522	8,353,503	8,353,503
University of Mississippi Medical Center	24,941,765	93,689,698	43,580,232	71,818,771	234,030,466	25,670,867	25,670,867
IHL Board Office	386,042	1,429,464	(175,220)	959,854	2,600,140	432,409	432,409
MCVS	29,902	106,055	(106,393)	88,482	118,046	107,454	107,454
Total	\$ 55,453,894	207,007,948	57,426,809	157,218,362	477,107,013	65,419,255	65,419,255

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

2015						
Deferred outflows				Deferred inflows		
Differences between expected and actual experience	Changes in proportion and differences between employer contributions and proportionate share of contributions			Net difference between projected and actual investment earnings on pension plan investments		
	Contributions subsequent to the measurement date	Total deferred outflows of resources			Total deferred inflows of resources	
Alcorn State University	\$ 885,413	1,421,615	4,487,694	6,794,722	8,227,528	8,227,528
Delta State University	523,174	123,279	2,664,943	3,311,396	4,861,492	4,861,492
Jackson State University	1,566,019	(3,338,023)	8,271,356	6,499,352	14,551,925	14,551,925
Mississippi State University	5,891,523	3,926,582	30,812,946	40,631,051	54,745,846	54,745,846
Mississippi University for Women	422,564	557,033	2,243,470	3,223,067	3,926,598	3,926,598
Mississippi Valley State University	485,478	129,325	2,384,644	2,999,447	4,511,213	4,511,213
University of Mississippi	3,501,129	4,957,239	18,189,943	26,648,311	32,533,568	32,533,568
University of Southern Mississippi	2,549,465	1,017,859	12,934,612	16,501,936	23,690,414	23,690,414
University of Mississippi Medical Center	12,814,159	26,078,336	68,736,092	107,628,587	119,073,103	119,073,103
IHL Board Office	204,091	(175,220)	1,048,459	1,077,330	1,896,474	1,896,474
MCVS	17,039	(106,393)	78,708	(10,646)	158,328	158,328
Total	\$ 28,860,054	34,591,632	151,852,867	215,304,553	268,176,489	268,176,489

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Contributions subsequent to the measurement date of \$157.2 million and \$151.9 million reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the years ended June 30, 2016 and 2015, respectively.

Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions as of June 30, 2016, will be recognized in pension expense as follows:

Deferred outflow of resources year ended June 30					
	2017	2018	2019	2020	Total
Alcorn State University	\$ 2,415,877	2,415,877	2,415,877	1,739,430	8,987,061
Delta State University	1,274,515	1,274,515	1,274,515	917,651	4,741,196
Jackson State University	3,655,895	3,655,895	3,655,895	2,632,243	13,599,928
Mississippi State University	16,159,584	16,159,584	16,159,584	11,634,901	60,113,653
Mississippi University for Women	1,312,342	1,312,342	1,312,342	944,886	4,881,912
Mississippi Valley State University	1,148,839	1,148,839	1,148,839	827,164	4,273,681
University of Mississippi	9,669,653	9,669,653	9,669,653	6,962,151	35,971,110
University of Southern Mississippi	6,300,690	6,300,690	6,300,690	4,536,495	23,438,565
University of Mississippi Medical Center	43,605,294	43,605,294	43,605,294	31,395,813	162,211,695
IHL Board Office	440,937	440,937	440,937	317,475	1,640,286
MCVS	7,947	7,947	7,947	5,723	29,564
Total	\$ 85,991,573	85,991,573	85,991,573	61,913,932	319,888,651

Deferred inflows of resources year ended June 30						
	2017	2018	2019	2020	2021	Total
Alcorn State University	\$ 624,066	624,066	624,066	624,066	624,067	3,120,331
Delta State University	313,041	313,041	313,041	313,041	313,042	1,565,206
Jackson State University	555,676	555,676	555,676	555,676	555,676	2,778,380
Mississippi State University	2,505,684	2,505,684	2,505,684	2,505,684	2,505,685	12,528,421
Mississippi University for Women	173,572	173,572	173,572	173,572	173,570	867,858
Mississippi Valley State University	487,655	487,655	487,655	487,655	487,657	2,438,277
University of Mississippi	1,511,310	1,511,310	1,511,310	1,511,310	1,511,309	7,556,549
University of Southern Mississippi	1,670,701	1,670,701	1,670,701	1,670,701	1,670,699	8,353,503
University of Mississippi Medical Center	5,134,173	5,134,173	5,134,173	5,134,173	5,134,175	25,670,867
IHL Board Office	86,482	86,482	86,482	86,482	86,481	432,409
MCVS	21,491	21,491	21,491	21,491	21,490	107,454
Total	\$ 13,083,851	13,083,851	13,083,851	13,083,851	13,083,851	65,419,255

(b) ORP Defined Contribution Plan

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. The membership of the ORP is composed of teachers and administrators of the IHL System 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,

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

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. The IHL System's contributions to the ORP for the years ended June 30, 2016 and 2015 were \$58.2 million and \$53.2 million, respectively, which equaled its required contribution for the period.

(15) Self-Insured Worker's Compensation Fund

The IHL System participates in the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund (the WC Fund). The WC Fund provides a mechanism for the institutions to fund and budget for the costs of providing worker compensation benefits to eligible employees. The WC Fund 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. Total assets and liabilities related to this activity approximated \$21.6 million and \$22.7 million at June 30, 2016 and 2015, respectively, are included in the statements of net position.

A professionally licensed actuarial firm was contracted to establish a liability for both reported and unreported insured events, which includes estimates of future payments of losses. The difference between the assets and liabilities of the fund is not expected to impact the WC Fund's ability to pay claims.

In order to minimize the amount of risk and in accordance with self-insurance general practices, the WC Fund purchases excess loss insurance to cover risks exceeding \$1,000,000 per occurrence. Excess loss insurance premiums for the years ended June 30, 2016 and 2015 were approximately \$386,000 and \$393,000, respectively. Excess loss insurance does not discharge the WC Fund from its primary liability to cover the IHL System's claims. Consequently, failure of the insurer to honor its obligation could result in losses to the WC Fund.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following represents changes in the unpaid claims liabilities for the IHL System's portion of the WC Fund for the years ended June 30, 2016, 2015 and 2014 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Accrued claims at beginning of year	\$ 22,600	23,841	22,497
Incurring claims:			
Provision for insured events of the current year	8,872	9,435	8,377
Decrease in provision for insured events of prior years	<u>(3,523)</u>	<u>(4,475)</u>	<u>(481)</u>
Total incurred claims and claims adjustment expenses	<u>5,349</u>	<u>4,960</u>	<u>7,896</u>
Claim payments:			
Claims attributable to insured events of the current year	1,876	1,865	1,356
Claims attributable to insured events of prior years	<u>4,606</u>	<u>4,336</u>	<u>5,196</u>
Total payments	<u>6,482</u>	<u>6,201</u>	<u>6,552</u>
Total accrued claims at end of year	<u>\$ 21,467</u>	<u>22,600</u>	<u>23,841</u>

Total accrued claims, included in long-term liabilities, are presented at their present value using a discount rate of 3.0%. The discount approximated \$2.5 million and \$2.7 million as of June 30, 2016 and 2015, respectively.

(16) Unemployment Trust Fund

The IHL System participates in a self-funded Unemployment Trust Fund (the Unemployment Fund). The Unemployment Fund provides a mechanism for the IHL System to fund and budget for the costs of providing unemployment benefits to eligible former employees. The Unemployment Fund does not pay benefits directly to former employees. Rather, it reimburses the Mississippi Department of Employment Security for benefits it pays directly to former IHL System employees. The assets and liabilities related to this activity approximated \$4.6 million and \$3.8 million at June 30, 2016 and \$3.1 million at June 30, 2015 and is included in the statements of net position.

A professionally licensed actuarial firm was contracted to perform an actuarial analysis of the Unemployment Fund as of June 30, 2016 and 2015. The actuarial firm recommended a minimum funding level of \$3.6 million and \$3.5 million as of June 30, 2016 and 2015, respectively. They concluded that the actual assets of the Unemployment Fund, which equaled \$4.6 million and \$3.1 million at June 30, 2016 and 2015, respectively, exceeded the recommended minimum fund balance in the current year.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(17) Tort Liability Fund and Other Contingencies

The IHL System participates in the State Institutions of Higher Learning Tort Liability Fund (the IHL Tort Fund). In accordance with Section 11-46-1, et seq., Mississippi Code Annotated (1972), 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 a certain portion of its liability under the Mississippi Tort Claims Act and professional liability claims. The IHL Board established the IHL Tort Fund to provide self-insurance.

Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against public institutions. A maximum limit of liability of \$500,000 per occurrence is currently permissible.

A professionally licensed actuarial firm was contracted to perform an actuarial analysis of the IHL Tort Fund as of June 30, 2016 and 2015. Total assets and liabilities related to this activity approximated \$16.3 million and \$12.2 million at June 30, 2016, respectively, and \$15.2 million and \$13.0 million at June 30, 2015, respectively and is included in the statements of net position.

The following represents changes in the unpaid claims liabilities for the IHL System's portion of the IHL Tort Fund during the years ended June 30, 2016, 2015 and 2014 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Accrued claims at beginning of year	\$ 12,961	12,612	12,261
Incurred claims:			
Provision for insured events of the current year	5,348	4,119	3,491
Decrease in provision for insured events of prior years	<u>(4,193)</u>	<u>(1,296)</u>	<u>(135)</u>
Total incurred claims and claims adjustment expense	<u>1,155</u>	<u>2,823</u>	<u>3,356</u>
Claims paid:			
Claims attributable to insured events of the current year	178	159	124
Claims attributable to insured events of prior years	<u>1,782</u>	<u>2,315</u>	<u>2,881</u>
Total payments	<u>1,960</u>	<u>2,474</u>	<u>3,005</u>
Total accrued claims at end of year	<u>\$ 12,156</u>	<u>12,961</u>	<u>12,612</u>

Total accrued claims, included in long-term liabilities, are presented at their present value using a discount rate of 3.0%. The discount approximated \$1.2 million and \$1.5 million as of June 30, 2016 and 2015, respectively.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

In addition to claims covered by the IHL Tort Fund and the UMMC Tort Fund (described more fully below), the IHL System is defendant in various other legal matters occurring in the normal course of business activities. Management, with the advice of legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse impact on the IHL System's financial statements.

(18) University of Mississippi Medical Center Tort Claims Fund

The University of Mississippi Medical Center participates in the University of Mississippi Medical Center Tort Claims Fund (UMMC Tort Claims Fund). In accordance with Section 11-46-1, et seq., Mississippi Code Annotated (1972), the Mississippi Tort Claims Board has authorized the Board of Trustees of the IHL System to establish a fund to self-insure a certain portion 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 limit of liability of \$500,000 per occurrence is currently permissible.

The Board of Trustees of Higher Learning has established a Medical Center Tort Claims fund to pay claims up to the maximum liability limits described above. Losses from professional and tort liability claims of the Medical Center are the responsibility of the Medical Center Tort Claims Fund.

Total assets and liabilities related to this activity approximated \$41.0 million and \$32.2 million at June 30, 2016, respectively and \$40.0 million at June 30, 2015 and are included in the statements of net position.

A professionally licensed actuarial firm was contracted to perform an actuarial analysis to establish a liability for both reported and unreported insured events, which includes estimates of future payments of losses.

The following represents changes in the unpaid claims liabilities for the IHL System's portion of the UMMC Tort Claims Fund for the years ended June 30, 2016, 2015, and 2014 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Accrued claims at beginning of year	\$ 32,417	31,980	32,464
Incurred claims:			
Provision for insured events of the current year	6,684	7,146	8,210
Decrease in provision for insured events of prior years	<u>(2,693)</u>	<u>(1,613)</u>	<u>(4,346)</u>
Total incurred claims	<u>3,991</u>	<u>5,533</u>	<u>3,864</u>
Payments:			
Claims attributable to insured events of the current year	938	1,797	504
Claims attributable to insured events of prior years	<u>3,693</u>	<u>3,299</u>	<u>3,844</u>
Total payments	<u>4,631</u>	<u>5,096</u>	<u>4,348</u>
Total accrued claims at end of year	<u>\$ 31,777</u>	<u>32,417</u>	<u>31,980</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

At June 30, 2016, unpaid claims, included in other long-term liabilities, of \$35.2 million are presented at their net present value of \$31.2 million.

(19) Significant Disclosures for the Discretely Presented Component Unit of the IHL System – Mississippi State University Foundation, Inc.

(a) Significant Accounting Policies

(i) Organization

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

(ii) Basis of Accounting

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

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

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

Unrestricted net position – 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. Expenses 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 the use of the underlying net asset is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Income and realized and unrealized gains (losses) on investments of permanently restricted net assets are reported:

- as increases (decreases) in permanently restricted net assets if the terms of the gift or MSUF's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets in all other cases and released from restriction when expended in accordance with donor agreements, except as described in note 9(d) of MSUF's financial statements for endowment funds whereby the fair value of the fund is less than the historical cost value.

(iii) 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.

MSUF's investments are invested in various types of investment securities and in various companies 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 MSUF's financial statements.

(iv) Investments

Overall Investment Objective

The overall investment objective of MSUF 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. MSUF diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by MSUF's Investment Committee, which oversees its investment program in accordance with an established investment policy.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Mississippi State Investment Pool

MSUF, MSU, 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 MSU Alumni Association, Inc. was added as a participant on March 2, 2015. MSUF is the investment pool's managing member, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the MSIP are allocated to each participant based on their share of ownership of the MSIP. Due to MSUF's significant financial interest in and control of the MSIP, MSUF has consolidated the MSIP reflecting the noncontrolling interests of the other three participants in its financial statements. As of June 30, 2016 and 2015, MUSF's financial statements include \$42.4 million and \$59.4 million, respectively, for their noncontrolling share within investments and unrestricted net position related to noncontrolling interests. MSUF recorded \$1.966 million and \$438 thousands of losses associated with these investments in fiscal 2016 and 2015, respectively, which is reported in net investment income (loss).

Allocation of Investment Strategies

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

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by MSUF and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with the SEC are based on share prices reported by the funds as of the last business day of the fiscal year. MSUF's interests in alternative investment funds are generally reported at the net position value (NAV) reported by the fund managers, which is used a practical expedient to estimate the fair value of MSUF'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, 2016 MSUF 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. MSUF considers recent comparables, among other things, to adjust for any changes in fair value between the most recent appraisal date and year-end.

(b) Pledges Receivable, Net

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.

Pledges receivable, net, are summarized as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 12,680,121	10,152,495
One year to five years	25,040,731	22,738,141
Over five years	<u>6,688,540</u>	<u>8,517,019</u>
	44,409,392	41,407,655
Less unamortized discount (rates ranging from 1% to 5%)	<u>(5,129,317)</u>	<u>(5,148,849)</u>
Total incurred claims	39,280,075	36,258,806
Less allowance for uncollectible pledges	<u>(861,657)</u>	<u>(826,511)</u>
	<u><u>\$ 38,418,418</u></u>	<u><u>35,432,295</u></u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(c) *Investments*

Investments are summarized as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 12,662,623	4,677,914
Global fixed income	99,791,850	100,020,834
Global equities	147,058,787	167,987,738
Real assets	51,271,823	51,424,962
Diversifying strategies	69,854,199	76,906,108
Contributed properties held for investment	28,069,571	30,980,754
Cash surrender value of life insurance	1,864,423	1,877,510
	<u>\$ 410,573,276</u>	<u>433,875,820</u>

MSUF has entered into various split interest agreements, including charitable remainder unitrusts and charitable gift annuities, whereby MSUF serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2016 and 2015 with an approximate fair value of \$5.8 million and \$7.3 million, respectively.

The following schedule summarizes net investment income in the statement of activities for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dividends and interest (net of expenses of \$600,464 and \$548,745, respectively)	\$ 8,495,001	10,256,776
Net realized and unrealized (losses)	<u>(22,795,076)</u>	<u>(11,965,959)</u>
	<u>\$ (14,300,075)</u>	<u>(1,709,183)</u>

(d) *Fair Value Measurements*

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that MSUF has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

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.

Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable, are classified as Level 2 or Level 3. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of MSUF's interest therein, its classification in Level 2 is based on MSUF's ability to redeem its interest at or near the date of the statements of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2, otherwise the investment is classified in Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual and common stock funds, index funds, and commodity funds, U.S. Government securities, corporate bonds and common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued based on inputs corroborated by observable market data.

Other fixed income securities: Valued at either the closing price reported on the active market on which the individual securities are traded or based on inputs corroborated by observable market data.

Diversifying strategies and real estate investments: Valued at the net asset value of underlying investments as determined by the fund managers. MSUF's management also takes into consideration the audited financial information to determine overall reasonableness or the recorded value.

Real estate and other: Valued on the basis of recent appraisals.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while MSUF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following table summarizes MSUF's assets by major category in the fair value hierarchy as of June 30, 2016 and 2015:

	June 30, 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 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		
Nonrecurring:						
Present value of amounts due from externally managed trusts	\$ —	—	46,924,276	46,924,276		

⁽¹⁾ Bulldog Forest properties totaling approximately \$19,700,000 and \$19,500,000 at June 30, 2016 and 2015, 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	June 30, 2015				Redemption or Liquidation	Days' Notice
	Level 1	Level 2	Level 3	Total		
Recurring:						
Short-term investments	\$ 4,677,914	—	—	4,677,914	Daily	1
Global fixed income:						
Interest-rate sensitive	59,171,161	8,206,979	—	67,378,140	Daily	1
Credit sensitive	32,642,694	—	—	32,642,694	Daily	1
Total global fixed income	91,813,855	8,206,979	—	100,020,834		
Global equities:						
Domestic	52,143,403	5,371,865	—	57,515,268	Daily	1–3
Non-U.S.	89,743,802	—	—	89,743,802	Daily	1
Total equities	141,887,205	5,371,865	—	147,259,070		
Diversifying strategies	\$ 6,140,410	—	—	6,140,410	(1)	(1)
Contributed properties held for investment	—	—	30,980,754	30,980,754	(2)	(2)
Cash-surrender value of life insurance	—	1,877,510	—	1,877,510	(3)	(3)
	\$ 244,519,384	15,456,354	30,980,754	290,956,492		
Investments at net asset value				142,919,328		
Total investments				\$ 433,875,820		
Nonrecurring:						
Present value of amounts due from externally managed trusts	\$ —	—	40,230,993	40,230,993		

(1) Generally, MSIP's investments in diversifying strategies (or hedge funds) allow early redemption for specified fees. With the exception of the Level 1 diversifying strategy investment, which has daily redemption, the terms and conditions upon which an investor may redeem an investment vary, usually with the majority requiring 3 to 180 days notice after the initial lock up period, which may be from one to three years. At June 30, 2015 MSUF had no diversifying strategy investments for which an otherwise redeemable investment was not redeemable.

(2) Bulldog Forest properties may be held in perpetuity or liquidated at the MSUF's discretion. Other properties are for immediate sale.

(3) MSUF 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.

At June 30, 2016 and 2015, MSUF had no future funding commitments and \$11 million, respectively, related to investments. In addition, all of MSUF's investments can be redeemed or liquidated on a daily basis except for private equity and real estate investments which require a much longer period to liquidate.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following table presents MSUF's activities for the years ended June 30, 2016 and 2015 for contributed properties held for investments classified in Level 3:

		2016	2015
Beginning value as of June 30	\$	30,980,754	31,188,074
Acquisitions		1,429,677	2,470,860
Dispositions		(5,815,100)	(1,290,064)
Net realized and unrealized gains (losses)		1,474,240	(1,388,116)
Fair value at June 30	\$	<u>28,069,571</u>	<u>30,980,754</u>

For the years ended June 30, 2016 and 2015, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

		2016	2015
Beginning value as of June 30	\$	40,230,993	41,317,126
Contributions		7,816,516	—
Terminations		—	(951,478)
Change in valuation		(1,123,233)	(134,655)
Fair value at June 30	\$	<u>46,924,276</u>	<u>40,230,993</u>

(e) Net Assets

Temporarily restricted and permanently restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

		2016		2015	
		Net assets temporarily restricted	Net assets permanently restricted	Net assets temporarily restricted	Net assets permanently restricted
Specified college programs	\$	23,579,108	108,408,786	37,750,863	106,875,074
Student financial aid		36,241,617	149,636,756	34,245,694	128,995,396
Research		1,031,166	16,427,654	2,645,806	15,148,942
Faculty and staff support		5,213,478	49,882,310	8,668,713	49,330,080
Facilities		9,529,267	7,005,463	13,030,936	6,985,463
Other		5,786,621	8,755,559	3,565,100	8,029,601
	\$	<u>81,381,257</u>	<u>340,116,528</u>	<u>99,907,112</u>	<u>315,364,556</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(f) ***Endowment Net Assets***

The FASB issued FASB ASC 958, *Not-for-Profit Entities*, which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and expands disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization is subject to UPMIFA. The Mississippi legislature enacted House Bill 1104 adopting UPMIFA during the 2012 legislative session. The legislation was effective July 1, 2012.

MSUF's Board of Directors has reviewed the terms of UPMIFA as enacted by the Mississippi legislature and has determined its donor agreements provide for the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds. As a result, MSUF classifies as permanently restricted net position the original gift donated to the permanent endowment and the original value of subsequent gifts. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified in temporarily restricted net position until the amounts are appropriated for expenditures in accordance with the donor agreements.

At June 30, 2016 MSUF's endowment consists of approximately 1,400 individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net position associated with endowment funds, including funds designated by the Board of Directors of MSUF (the Board) to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

MSUF's spending policy is designed to provide for positive growth in the market value of its endowment, net of distributions, over an extended period of time. In establishing this policy, the Board considered the long-term expected return of the endowment investment pool and the goal of maintaining the purchasing power of the endowment asset. Over the long-term, the current spending policy is designed to return a net positive gain in market value (growth) after spendable transfers. The annual rate for spendable transfers, distributed semi-annually, is 4.0% of the investment pool's average unit value over the most recent 36-month period. In addition, each endowed fund is assessed an annual 1.5% 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 MSUF.

MSUF'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 MSU. 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. To satisfy its long-term rate of return objectives, the pool embraces a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MSUF, through the MSIP, targets a diversified asset allocation that includes global equities, fixed income, natural resources, and hedge strategies to achieve long-term objectives within prudent risk constraints.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

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

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (2,568,829)	30,930,493	280,205,092	308,566,756
Board-designated endowment funds	19,749,177	—	—	19,749,177
	<u>\$ 17,180,348</u>	<u>30,930,493</u>	<u>280,205,092</u>	<u>328,315,933</u>

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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 (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	(3,219,601)	(12,027,790)	1,412,803	(13,834,588)
Contributions	—	—	14,801,649	14,801,649
Appropriation of endowment assets for expenditure	(759,733)	(14,234,163)	—	(14,993,896)
Other changes:				
Other transfers	<u>148,694</u>	<u>8,378,686</u>	<u>6,948,432</u>	<u>15,475,812</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>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Endowment net asset composition by type of fund as of June 30, 2015:

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (563,121)	48,813,760	257,042,208	305,292,847
Board-designated endowment funds	21,574,109	—	—	21,574,109
	<u>\$ 21,010,988</u>	<u>48,813,760</u>	<u>257,042,208</u>	<u>326,866,956</u>

Changes in endowment net assets for the fiscal years ended June 30, 2015:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 21,375,410	61,010,423	249,420,706	331,806,539
Investment return:				
Investment income	906,446	3,709,982	—	4,616,428
Net appreciation (realized and unrealized)	(672,143)	(3,554,020)	17,217	(4,208,946)
Total investment return	234,303	155,962	17,217	407,482
Contributions	—	—	5,188,428	5,188,428
Appropriation of endowment assets for expenditure	(855,975)	(12,564,623)	—	(13,420,598)
Other changes:				
Other transfers	257,250	211,998	2,415,857	2,885,105
Endowment net assets, end of year	<u>\$ 21,010,988</u>	<u>48,813,760</u>	<u>257,042,208</u>	<u>326,866,956</u>

(g) ***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 approximately \$2.6 million and \$766 thousand at June 30, 2016 and 2015, 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.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(20) Significant Disclosures for the Discretely Presented Component Unit of the IHL System – University of Mississippi Foundation

(a) *Significant Accounting Policies*

(i) **Organization**

The University of Mississippi Foundation (UMF) is a nonprofit, nonstock corporation formed for the benefit of The University of Mississippi (UM). UMF promotes, encourages, and assists educational, scientific, literary, research, and service activities of UM and its affiliates.

(ii) **Basis of Accounting**

These financial statements, which are presented on the accrual basis of accounting and follow Financial Accounting Standards Board (FASB) statements, 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 position and transactions into three classes – permanently restricted, temporarily restricted or unrestricted as follows:

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

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

Unrestricted net assets – net assets that represent resources granted from operations or that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses 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 the use of the underlying net asset is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Income and realized and unrealized gains (losses) on investments of permanently restricted net assets are reported:

- as increases (decreases) in permanently restricted net assets if the terms of the gift or UMF's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets in all other cases and released from restriction when expended in accordance with donor agreements.

(iii) Use of Estimates

UMF prepares its financial statements in accordance with U.S. generally accepted accounting principles, which require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. Such estimates include the present value discount rates applied to the pledges receivable and liabilities under remainder trusts, allowance for uncollectible pledges, fair market values of certain investments including real estate, partnership and member interests, and depreciation of property and equipment. Actual results could differ significantly from those estimates.

UMF's investments are primarily invested in various types of investment securities within many 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 reasonably possible that changes in the fair value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in UMF's financial statements.

(iv) Investments

Overall Investment Objective

The overall investment objective of UMF 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. UMF diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by UMF's Investment Committee, which oversees its investment program in accordance with an established investment policy.

Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, UMF may also hold shares or units in alternative investment vehicles involving hedged, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset strategies include natural resources and contributed properties held for investment. Natural resources funds

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

generally hold interests in timber management organizations and master limited partnerships. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of UMF'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 position.

Basis of Reporting

Investments are recorded at fair value. The fair values of all investments other than real estate and partnership and membership interests (which include certain private equity investments and hedge funds) are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets, or inputs corroborated by observable market data. UMF's partnership and member interests are generally reported at the net position value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the UMF'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, 2016 and 2015, UMF had no plans or intentions to sell investments at amounts different from NAV. UMF's real estate investments are also carried at fair value based on appraisal values at the date of receipt and as subsequently updated. Both realized and unrealized gains and losses are classified in the accompanying statement of activities based on restrictions put in place by the donor.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(b) *Pledges Receivable, Net*

UMF obtains pledges through fund-raising projects in support of various activities. At June 30, 2016, pledges mature at various dates through 2037 (approximately \$9.96 million is due in fiscal year 2017, \$29.8 million is due in total during the period including fiscal year 2018 through fiscal year 2022, and \$28.1 million is due thereafter). At June 30, 2015, pledges were scheduled to mature at various dates through 2036 (approximately \$11.0 million is due in fiscal year 2016, \$18.3 million is due in total during the period including fiscal year 2017 through fiscal year 2021, and \$17.9 million is due thereafter). A summary of pledges receivable as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Temporarily restricted	\$ 57,215,469	32,918,752
Permanently restricted	10,661,872	14,228,737
	<u>67,877,341</u>	<u>47,147,489</u>
Allowances for doubtful pledges	(5,247,427)	(7,603,938)
Present value discounts (ranging from 1.6% to 6.1%)	<u>(11,086,981)</u>	<u>(7,936,224)</u>
	<u>\$ 51,542,933</u>	<u>31,607,327</u>

(c) *Investments*

UMF's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Liquidation period</u>
Investment strategy:			
Fixed income:			
U.S. Government securities	\$ 2,060,009	1,566,262	Daily
Corporate bonds	21,155,503	18,577,303	Daily
Certificates of deposit	518,015	510,855	Annually
Other fixed income securities	<u>46,994,089</u>	<u>50,631,349</u>	Daily
Total fixed income	<u>70,727,616</u>	<u>71,285,769</u>	
Equities:			
Common stocks	9,146,996	10,028,888	Daily
Common stock funds	51,642,330	67,452,492	Daily
Mutual funds	5,156,814	5,769,565	Daily
Index funds	<u>22,219,614</u>	<u>44,021,956</u>	Daily
Total equities	<u>88,165,754</u>	<u>127,272,901</u>	

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	2016	2015	Liquidation period
Hedge funds	\$ 135,221,582	120,675,963	Various(1)
Venture capital	79,953,494	59,498,831	Illiquid(2)
Real estate:			
Real estate owned	4,655,693	4,600,673	Illiquid
Timber fund	12,495,924	12,231,787	Illiquid(3)
Partnership interest	750,000	750,000	Illiquid(4)
Total real estate	17,901,617	17,582,460	
Other short-term investments	4,713,828	5,714,252	Daily
Total investments	\$ 396,683,891	402,030,176	

(1) The majority of these hedge funds have liquidation terms that allow UMF to liquidate its investment in the fund on a quarterly basis but require prior notification ranging from 30 to 120 days

(2) These venture capital investments have liquidation terms that allow UMF to liquidate its investment in the different funds after 7 to 12 years depending on the investment.

(3) This fund represent interest in a partnership that invests solely in timber land and allows for liquidation after a 10-year term.

(4) This investment represents a 49% interest in a commercial property. The investment would be liquidated upon the sale of the property.

(d) *Fair Value Measurement*

ASC Topic 820, *Fair Value Measurements*, 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: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;
- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- Level 3: Significant unobservable inputs for the asset or liability that reflects the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In accordance with ASU 2009-12, *Investments that can be Redeemed at Net position Value on the Measurement Date or in the Near Term*, may be classified as Level 2. NAV is used as a practical expedient to estimate the fair value of such investments 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, 2016 and 2015, UMF had no plans or intentions to sell investments at amounts different from NAV.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual and common stock funds, index funds, and commodity funds, U.S. Government securities, corporate bonds and common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued based on inputs corroborated by observable market data.

Other fixed income securities: Valued at either the closing price reported on the active market on which the individual securities are traded or based on inputs corroborated by observable market data.

Hedge funds and real estate investment funds: Valued at the net asset value of underlying investments as determined by the fund managers. UMF's management also takes into consideration the audited financial information to determine overall reasonableness of the recorded value.

Real estate and other: Valued on the basis of recent appraisals.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while UMF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2016 and 2015.

		2016			
		Level 1	Level 2	Level 3	Total
Investment strategy:					
Fixed income:					
U.S. Government securities	\$	—	2,060,009	—	2,060,009
Corporate bonds		—	21,155,503	—	21,155,503
Certificates of deposit		—	518,015	—	518,015
Other fixed income securities		38,639,893	8,354,196	—	46,994,089
Total fixed income		38,639,893	32,087,723	—	70,727,616
Equities:					
Common stocks		9,146,996	—	—	9,146,996
Common stock funds		51,642,330	—	—	51,642,330
Mutual funds		5,156,814	—	—	5,156,814
Index funds		22,219,614	—	—	22,219,614
Total equities		88,165,754	—	—	88,165,754
Hedge funds		—	77,429,628	57,791,954	135,221,582
Venture capital		—	—	79,953,494	79,953,494
Real estate:					
Real estate owned		—	—	4,655,693	4,655,693
Timber fund		—	—	12,495,924	12,495,924
Partnership interest		—	—	750,000	750,000
Total real estate		—	—	17,901,617	17,901,617
Other short-term investments		4,713,828	—	—	4,713,828
Total investments	\$	131,519,475	109,517,351	155,647,065	396,683,891
Beneficial interest in perpetual trust					
	\$	1,789,587	5,661,282	—	7,450,869

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

		2015			
		Level 1	Level 2	Level 3	Total
Investment strategy:					
Fixed income:					
U.S. Government securities	\$	—	1,566,262	—	1,566,262
Corporate bonds		—	18,577,303	—	18,577,303
Certificates of deposit		—	510,855	—	510,855
Other fixed income securities		40,179,204	10,452,145	—	50,631,349
Total fixed income		40,179,204	31,106,565	—	71,285,769
Equities:					
Common stocks		10,028,888	—	—	10,028,888
Common stock funds		23,187,289	44,265,203	—	67,452,492
Mutual funds		5,769,565	—	—	5,769,565
Index funds		44,021,956	—	—	44,021,956
Total equities		83,007,698	44,265,203	—	127,272,901
Hedge funds		—	86,407,473	34,268,490	120,675,963
Venture capital		—	—	59,498,831	59,498,831
Real estate:					
Real estate owned		—	—	4,600,673	4,600,673
Timber fund		—	—	12,231,787	12,231,787
Partnership interest		—	—	750,000	750,000
Total real estate		—	—	17,582,460	17,582,460
Other short-term investments		5,714,252	—	—	5,714,252
Total investments	\$	128,901,154	161,779,241	111,349,781	402,030,176
Beneficial interest in perpetual trust	\$	757,652	308,959	—	1,066,611

These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while UMF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2016, UMF had unfunded commitments of \$1.0M related to natural resource private fund hedge funds and \$51.1M related to venture capital and private equity investments. At June 30, 2015, UMF had unfunded commitments of \$1.6M related to natural resource private fund hedge funds and \$22.4M related to venture capital and private equity investments. In addition, all of UMF's investments can be redeemed or liquidated on a daily basis except for real estate investments which require a much longer period to liquidate.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following table includes a rollforward of the amounts for the years ended June 30, 2016 and 2015 for investments classified within Level 3:

	<u>Real estate</u>	<u>Venture capital and private equity</u>	<u>Hedge Funds</u>	<u>Total</u>
Balance as of June 30, 2014	\$ 18,192,578	25,518,456	28,384,737	72,095,771
Net realized and unrealized gain (loss)	(47,460)	3,409,944	915,178	4,277,662
Net purchases (sales)	<u>(562,658)</u>	<u>30,570,431</u>	<u>4,968,575</u>	<u>34,976,348</u>
Balance as of June 30, 2015	17,582,460	59,498,831	34,268,490	111,349,781
Net realized and unrealized gain (loss)	508,612	4,930,663	(3,079,848)	2,359,427
Net purchases (sales)	<u>(189,455)</u>	<u>15,524,000</u>	<u>26,603,312</u>	<u>41,937,857</u>
Balance as of June 30, 2016	<u>\$ 17,901,617</u>	<u>79,953,494</u>	<u>57,791,954</u>	<u>155,647,065</u>

Hedge funds include long/short funds, fixed income funds and multi-strategy funds. These funds generally invest directly into corporate equity and debt securities. Venture capital and private equity investments are comprised of funds primarily invested in startup entities with high growth potential. Real estate investments consist of funds invested directly or indirectly in real property.

(e) Net Asset

Permanently restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Academic and program support	\$ 38,570,620	37,007,735
Scholarship support	98,807,643	93,164,265
Faculty support	71,986,540	66,401,886
Library support	<u>13,854,301</u>	<u>13,716,237</u>
Total	<u>\$ 223,219,104</u>	<u>210,290,123</u>

The vast majority of temporarily restricted net assets at June 30, 2016 and 2015 were available for academic and program support.

(f) Net Asset Classification of Endowment Funds

The FASB issued FASB ASC 958, *Not-for-Profit Entities*, which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and expands disclosures about endowment funds (both donor-restricted and board-designated endowment

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

funds), regardless of whether an organization is subject to UPMIFA. The Mississippi legislature enacted House Bill 1104 adopting UPMIFA during the 2012 legislative session. The legislation was effective July 1, 2012.

UMF's Board of Directors has reviewed the terms of UPMIFA as enacted by the Mississippi legislature and has determined its donor agreements provide for the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds. As a result, UMF classifies as permanently restricted net position the original gift donated to the permanent endowment and the original value of subsequent gifts. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified in temporarily restricted net position until the amounts are appropriated for expenditures in accordance with the donor agreements.

UMF has established policies to achieve the overall, long-term investment goal of achieving an annualized total return, through appreciation and income, greater than the rate of inflation plus any distribution needs, thus protecting the assets against inflation. UMF's Board and Joint Committee on Investments agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets are invested in equity or equity-like securities. Fixed income securities are used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity market returns. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. The primary performance objective of UMF is to achieve a total return, net of investment management fees and expenses, in excess of inflation and the spending rate.

Income available for spending is determined by a total return system and is approved by the Board of Directors of UMF. The amount to be spent for the endowed purpose is calculated based on a percentage of a 3-year moving average of the endowment's market value. The objective is to provide relatively stable spending allocations. However, no portion of the original gift value of the endowed assets will be allocated for spending.

Changes in donor-restricted endowment net assets for the years ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment net assets, June 30, 2015	\$ (2,501)	97,714,197	208,338,466	306,050,162
Contributions and transfers to endowment	—	—	11,134,800	11,134,800
Appropriation for expenditures	—	(10,000,381)	—	(10,000,381)
Investment return:				
Investment income	—	661,387	—	661,387
Net appreciation (depreciation)	(220,470)	(9,915,924)	11,006	(10,125,388)
Donor-restricted endowment net assets, June 30, 2016	<u>\$ (222,971)</u>	<u>78,459,279</u>	<u>219,484,272</u>	<u>297,720,580</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Changes in donor-restricted endowment net assets for the years ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment net assets (deficit), June 30, 2014	\$ —	101,280,327	192,336,712	293,617,039
Contributions and transfers to endowment	—	—	15,997,132	15,997,132
Appropriation for expenditures	—	(8,854,211)	—	(8,854,211)
Investment return:				
Investment income	—	17,785,231	—	17,785,231
Net appreciation (depreciation)	(2,501)	(12,497,150)	4,622	(12,495,029)
Donor-restricted endowment net assets, June 30, 2015	<u>\$ (2,501)</u>	<u>97,714,197</u>	<u>208,338,466</u>	<u>306,050,162</u>

As a result of unfavorable volatility in the financial markets, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains that restore the fair value of assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were endowment funds with deficiencies totaling approximately \$223,000 as of June 30, 2016 and approximately \$3,000 of such deficiencies as of June 30, 2015.

(21) Significant Disclosures for the Discretely Presented Component Unit of the IHL System – University of Southern Mississippi Foundation

(a) Significant Accounting Policies

(i) Organization

The University of Southern Mississippi Foundation (USMF) is a not-for-profit entity organized under the laws of the State of Mississippi to provide support to The University of Southern Mississippi (USM) and its students. USMF depends on the University to provide the staff and facilities for its operations.

Foundation Aviation Holdings, LLC was formed by USMF in October 2008 as a single member limited liability company. USMF's consolidated financial statements include the accounts of Foundation Aviation Holdings, LLC. All significant intercompany accounts and intercompany transactions have been eliminated.

(ii) Basis of Accounting

The consolidated financial statements, which are presented on the accrual basis of accounting, and follow Financial Accounting Standards Board (FASB) statements, have been prepared to present balances and transactions according to the existence or absence of donor-imposed

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

restrictions. This has been accomplished by classification of net assets and transactions into three classes – permanently restricted, temporarily restricted and unrestricted as follows:

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by USMF. Generally, only a portion of the income earned on related investments may be expended for general or specific purposes in support of the USM.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of USMF and/or the passage of time. To the extent that restricted resources from multiple donors are available for the same purpose, USMF expends such gifts on a “first in, first out” basis.

Unrestricted net assets – net assets that represent resources generated from operations or that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses 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 the use of the underlying net asset is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management’s judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Income and realized and unrealized gains (losses) on investments of permanently restricted net assets are reported:

- as increases (decreases) in permanently restricted net assets if the terms of the gift or USMF’s interpretation of relevant state law require that they be added to the principal of a permanent endowment fund.
- as increases (decreases) in temporarily restricted net assets in all other cases and released from restriction when expended in accordance with donor agreements.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(iii) Use of Estimates

USMF prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles which require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. Such estimates include the allowance for uncollectible pledges, the fair market value of certain real estate, depreciation of property and equipment, and the present value discount applied to pledges receivable, the present value of externally managed trusts and the liabilities for gift annuity contracts. Actual results could differ significantly from those estimates.

USMF's investments are held in various types of investment securities 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 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 USMF's consolidated financial statements.

(iv) Investments

Overall Investment Objective

Investments The overall investment objective of USMF 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. USMF diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by USMF's Investment Committee, which oversees its investment program in accordance with an established investment policy.

Allocation of Investment Strategies

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

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

certain investments held. Moreover, the fair values of USMF'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 position.

Basis of Reporting

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Hedge funds and real estate investment funds are reported at the net asset value 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 net asset value. At June 30, 2016 and 2015, the USMF had no plans or intentions to sell investments at amounts different from net asset value. Other investments, which consist primarily of pooled investment funds and real estate, are recorded at fair value. The fair value of real estate is based on recent appraisals. Transactions are accounted for on a trade date basis.

(v) **Pledges**

All unconditional pledges to give are recorded at their estimated realizable value on a discounted basis at rates commensurate with the risk involved. Management's estimate of the allowance for uncollectible pledges is based on an analysis of economic conditions, financial information about donors and current receivable levels and agings.

(b) ***Pledges Receivable, Net***

Pledges receivable, net, are summarized as follows at June 30, 2016 and 2015:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,545,075	4,901,798
One year to five years	4,176,552	7,668,581
More than five years	76,361	139,176
	<u>8,797,988</u>	<u>12,709,555</u>
Less unamortized discounts ranging from 0.72% to 5.15%	<u>(206,472)</u>	<u>(363,514)</u>
	8,591,516	12,346,041
Less allowance for uncollectible pledges	<u>(367,000)</u>	<u>(294,000)</u>
	<u><u>\$ 8,224,516</u></u>	<u><u>12,052,041</u></u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(c) *Investments*

Investments are summarized as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 1,195,130	2,699,292
Corporate bonds	6,073,335	5,846,610
Mutual funds	27,313,405	25,636,245
Other fixed income securities	4,486,679	4,030,927
Total fixed income	<u>39,068,549</u>	<u>38,213,074</u>
Equities:		
Mutual and common stock funds	47,396,182	49,368,285
Total equities	<u>47,396,182</u>	<u>49,368,285</u>
Alternative investments:		
Hedge funds	4,984,804	5,356,096
Real estate investment funds	2,700,067	2,419,042
Total alternative investments	<u>7,684,871</u>	<u>7,775,138</u>
Cash surrender value of insurance policies	2,472,867	2,397,134
Other	46,032	71,032
Total investments	<u>\$ 96,668,501</u>	<u>97,824,663</u>

The following schedule summarizes net investment gain and its classification in the statement of activities:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Dividends and interest (net of expenses of \$374,618)	\$ 1,455,283	294,314	73,231
Realized (losses) gains, net	(104,507)	1,224,250	43,193
Unrealized gains, net	119,588	(3,420,161)	(83,286)
	<u>\$ 1,470,364</u>	<u>(1,901,597)</u>	<u>33,138</u>
			<u>(398,095)</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$350,000)	\$ 1,596,462	210,242	13,666	1,820,370
Realized (losses) gains, net	(57,982)	2,232,578	11,430	2,186,026
Unrealized gains, net	(95,908)	(2,150,341)	41,597	(2,204,652)
	<u>\$ 1,442,572</u>	<u>292,479</u>	<u>66,693</u>	<u>1,801,744</u>

(d) Fair Value Measurements

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy established in FASB ASC 820 prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that USMF has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual and common stock funds, index funds, and commodity funds, U.S. Government securities, corporate bonds and common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued based on inputs corroborated by observable market data.

Other fixed income securities: Valued at either the closing price reported on the active market on which the individual securities are traded or based on inputs corroborated by observable market data.

Hedge funds and real estate investment funds: At June 30, 2016 and 2015, \$7,684,871 and \$7,775,138, respectively, are valued at the net asset value of underlying investments as determined by the fund managers. USMF's management also takes into consideration the audited financial information to determine overall reasonableness of the recorded value.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Cash surrender value of insurance policies: Valued at the cash surrender value of the life insurance contract as determined by the life insurance company.

Real estate and other: Valued on the basis of recent appraisals.

The following is a description of the valuation methodologies used for other assets and liabilities measured at fair value:

Amounts due from externally managed trusts: Valued based on the present value of the estimated future cash receipts from the assets of the trust using appropriate discount rates.

Gift annuities payable: Valued based on the present value of projected future distributions to the annuity beneficiaries using appropriate discount rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while USMF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

The following tables set forth by level, within the fair value hierarchy, as well as assets measured at NAV, USMF's assets at fair value or net position value as of June 30, 2016 and 2015:

2016					
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investment strategy:					
Fixed income:					
U.S. Government securities	\$ 1,195,130	—	—	—	1,195,130
Corporate bonds	—	6,073,335	—	—	6,073,335
Mutual Funds	27,313,405	—	—	—	27,313,405
Other fixed income securities	1,995,447	2,491,232	—	—	4,486,679
Total fixed income	30,503,982	8,564,567	—	—	39,068,549
Equities:					
Mutual and common stock funds	47,396,182	—	—	—	47,396,182
Total equities	47,396,182	—	—	—	47,396,182
Alternative investments:					
Hedge funds	—	—	—	4,984,804	4,984,804
Real estate investment funds	—	—	—	2,700,067	2,700,067
Total alternative investments	—	—	—	7,684,871	7,684,871
Cash surrender value of insurance policies	—	—	2,472,867	—	2,472,867
Other	—	—	46,032	—	46,032
Total investments	\$ 77,900,164	8,564,567	2,518,899	7,684,871	96,668,501
Present value of amounts due from externally managed trusts	\$ —	—	4,883,516	—	4,883,516
Gift annuities payable	—	—	286,181	—	286,181

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

2015					
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investment strategy:					
Fixed income:					
U.S. Government securities	\$ 2,699,292	—	—	—	2,699,292
Corporate bonds	—	5,846,610	—	—	5,846,610
Mutual Funds	25,636,245	—	—	—	25,636,245
Other fixed income securities	2,231,175	1,799,752	—	—	4,030,927
Total fixed income	30,566,712	7,646,362	—	—	38,213,074
Equities:					
Mutual and common stock funds	49,368,285	—	—	—	49,368,285
Total equities	49,368,285	—	—	—	49,368,285
Alternative investments:					
Hedge funds	—	—	—	5,356,096	5,356,096
Real estate investment funds	—	—	—	2,419,042	2,419,042
Total alternative investments	—	—	—	7,775,138	7,775,138
Cash surrender value of insurance policies	—	—	2,397,134	—	2,397,134
Other	—	—	71,032	—	71,032
Total investments	\$ 79,934,997	7,646,362	2,468,166	7,775,138	97,824,663
Present value of amounts due from externally managed trusts	\$ —	—	817,080	—	817,080
Gift annuities payable	—	—	305,330	—	305,330

At June 30, 2016 and 2015, USMF had no outstanding unfunded commitments related to investments. In addition, all of USMF's investments can be redeemed or liquidated on a daily basis except for hedge funds and real estate investments which require a much longer period to liquidate.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Level 3 Gains and Losses

The tables below set forth a summary of changes in the fair value or net position value of USMF's Level 3 assets for the years ended June 30, 2016 and 2015:

2016				
Level 3	Life insurance contracts	Real estate	Other	Total
Balance, June 30, 2015	\$ 2,397,134	—	71,032	2,468,166
Acquisitions	—	—	—	—
Dispositions	—	—	(25,000)	(25,000)
Change in cash surrender value	75,733	—	—	75,733
Balance, June 30, 2016	<u>\$ 2,472,867</u>	<u>—</u>	<u>46,032</u>	<u>2,518,899</u>

2015				
Level 3	Life insurance contracts	Real estate	Other	Total
Balance, June 30, 2014	\$ 2,327,070	90,000	46,032	2,463,102
Acquisitions	—	—	25,000	25,000
Dispositions	(6,687)	(90,000)	—	(96,687)
Change in cash surrender value	76,751	—	—	76,751
Balance, June 30, 2015	<u>\$ 2,397,134</u>	<u>—</u>	<u>71,032</u>	<u>2,468,166</u>

Amounts due from Externally Managed Trusts

For the years ended June 30, 2016 and 2015, the changes in present value of amounts due from externally managed trusts classified as Level 3 are as follows:

	2016	2015
Beginning value as of June 30	\$ 817,080	856,903
Additions	4,107,051	114,378
Distributions	(36,411)	(60,877)
Change in valuation	(4,204)	(93,324)
Fair value at June 30	<u>\$ 4,883,516</u>	<u>817,080</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

Gift annuities payable

For the years ended June 30, 2016 and 2015, the changes in present value of amounts to gift annuities payable classified as Level 3 are as follows:

	2016	2015
Beginning value as of June 30	\$ 305,330	343,582
Additions	131,352	—
Change in valuation	71,304	12,349
Annuity payments	(51,803)	(46,134)
Terminations	(170,002)	(4,467)
Fair value at June 30	<u>\$ 286,181</u>	<u>305,330</u>

(e) *Temporarily Restricted Net Assets*

Temporarily restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

	2016	2015
Student financial aid	\$ 16,569,776	20,970,063
Academic divisions	3,210,698	3,506,432
Research	239,037	243,240
Operation and maintenance of plant	3,862,593	7,339,218
Library	669,195	690,134
Athletics	378,591	368,047
Faculty and staff support	1,803,790	2,396,084
Other restricted purposes	6,956,052	7,209,034
Total	<u>\$ 33,689,732</u>	<u>42,722,252</u>

(f) *Permanently Restricted Net Assets*

Permanently restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

	2016	2015
Student financial aid	\$ 44,345,689	37,596,381
Academic divisions	5,472,753	5,354,919
Research	200,610	181,190
Operation and maintenance of plant	4,686,194	3,778,768
Library	3,002,234	2,983,621
Faculty and staff support	10,307,753	10,171,311
Other restricted purposes	4,124,317	3,528,388
Total	<u>\$ 72,139,550</u>	<u>63,594,578</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

(g) ***Endowment Net Assets***

At June 30, 2016, USMF has 906 individual funds which function as endowment funds that are established for a variety of purposes to support the USM. The endowment funds include both donor-restricted endowment funds and funds designated by the Foundation's Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including board-designated funds to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

FASB ASC 958, *Not-for-Profit Entities*, provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization is subject to UPMIFA. The Mississippi legislature enacted House Bill 1104 adopting UPMIFA during the 2012 legislative session. The legislation was effective July 1, 2012.

USMF's Board of Directors has reviewed the terms of UPMIFA as enacted by the Mississippi legislature and has determined that its donor agreements for permanent endowments provide for the preservation of the original gift of the donor-restricted endowment funds. As a result, the Foundation classifies as permanently restricted net assets the original gift donated to the permanent endowment and the original value of subsequent gifts. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until the amounts are expended in accordance with the donor agreements.

USMF has established investment policies to ensure the assets of the Foundation's endowment are managed in a prudent fashion in accordance with sound investment principles and UPMIFA. USMF's Board of Directors sets and approves the investment policies and charges the Investment Committee with implementation and subsequent ongoing monitoring of the policies. USMF's investment objectives for endowments are to provide a real total return that preserves the purchasing power of the endowment's assets while generating an income stream to support the USM. The primary performance objective of the endowment is to earn a total return, net of investment fees, within prudent levels of risk, equal to or greater than the spending rate plus administrative fees and the desired rate of growth.

USMF's spending policy is designed to promote positive growth in the market value of the endowment sufficient to offset reasonable spending over an extended period of time. The spending policy is approved annually by the USMF's Board of Directors. In accordance with UPMIFA, the Board may expend as much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund was established. The spending rate was approximately 4% for the years ended June 30, 2016 and 2015. In addition, applicable endowment funds were assessed a 1.75% administrative fee. This fee provides a significant portion of the funding for the development programs of USMF. No portion of the original gift value of permanent endowments is allocated for spending or charged a fee.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

At June 30, 2016 the endowment net asset composition by type of fund consists of the following:

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment-type funds	\$ (907)	17,632,655	63,750,398	81,382,146
Board-designated endowment-type funds	1,913,755	—	—	1,913,755
Endowment net assets, June 30, 2016	<u>\$ 1,912,848</u>	<u>17,632,655</u>	<u>63,750,398</u>	<u>83,295,901</u>

During the years ended June 30, 2016, USMF had the following endowment related activity:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	\$ 1,802,075	21,500,210	59,570,656	82,872,941
Contributions	25,742	190,212	2,899,943	3,115,897
Net investment income	(25,714)	(1,927,352)	(27,929)	(1,980,995)
Other income	(571)	667	2,878	2,974
Change in restriction by donor	—	(55,491)	1,090,171	1,034,680
Expenses	(69,517)	(2,524,642)	—	(2,594,159)
Transfers	180,833	449,051	214,679	844,563
Endowment net assets, June 30, 2016	<u>\$ 1,912,848</u>	<u>17,632,655</u>	<u>63,750,398</u>	<u>83,295,901</u>

At June 30, 2015 the endowment net asset composition by type of fund consists of the following:

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Financial Statements

June 30, 2016 and 2015

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment- type funds	\$ —	21,500,210	59,570,656	81,070,866
Board-designated endowment- type funds	<u>1,802,075</u>	<u>—</u>	<u>—</u>	<u>1,802,075</u>
Endowment net assets, June 30, 2015	\$ <u><u>1,802,075</u></u>	<u><u>21,500,210</u></u>	<u><u>59,570,656</u></u>	<u><u>82,872,941</u></u>

During the years ended June 30, 2015, USMF had the following endowment related activity:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	\$ 1,841,375	22,197,861	54,633,599	78,672,835
Contributions	102,862	1,361,989	2,853,147	4,317,998
Net investment income	31,139	260,300	4,895	296,334
Other income	(1,102)	—	22	(1,080)
Change in restriction by donor	—	(32,862)	2,057,198	2,024,336
Expenses	(176,085)	(2,305,157)	—	(2,481,242)
Transfers	<u>3,886</u>	<u>18,079</u>	<u>21,795</u>	<u>43,760</u>
Endowment net assets, June 30, 2015	\$ <u><u>1,802,075</u></u>	<u><u>21,500,210</u></u>	<u><u>59,570,656</u></u>	<u><u>82,872,941</u></u>

COMBINING SUPPLEMENTAL INFORMATION

(THIS PAGE LEFT BLANK INTENTIONALLY)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Net Position

June 30, 2016

Assets	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Current assets:													
Cash and cash equivalents	\$ 34,896,924	4,978,332	3,991,141	95,075,081	7,647,457	10,646,817	59,239,543	39,030,118	195,110,639	9,743,836	662,000	—	461,021,888
Short-term investments	4,885,537	137,462	250,000	13,093,328	—	3,117,530	113,823,895	1,953,856	71,857,734	11,440,498	—	—	220,559,840
Accounts receivable, net	11,670,512	5,456,550	27,859,081	63,046,353	4,906,400	3,574,430	43,555,891	21,857,504	190,753,570	1,786,837	223,368	—	374,690,496
Student notes receivable, net	771,217	333,632	61,919	3,681,775	87,817	—	7,399,244	2,024,771	615,512	790,321	—	—	15,766,208
Inventories	294,539	213,550	304,909	3,061,903	—	474,213	944,531	283,449	26,151,794	481,923	—	—	32,210,811
Prepaid expenses	—	74,973	9,014	19,107,930	227,507	26,229	1,755,170	5,025,859	6,849,049	—	—	—	33,075,731
Other current assets	—	—	—	—	—	—	—	—	9,031,684	—	—	—	9,031,684
Total current assets	52,518,729	11,194,499	32,476,064	197,066,370	12,869,181	17,839,219	226,718,274	70,175,557	500,369,982	24,243,415	885,368	—	1,146,356,658
Noncurrent assets:													
Restricted cash and cash equivalents	2,963,495	(625,244)	2,127,921	13,255,368	(1,273,415)	—	18,792,010	147	150,249,799	—	—	—	185,490,081
Restricted short-term investments	1,055,340	—	—	—	—	670,367	11,494,365	—	2,501,365	—	—	—	15,721,437
Endowments investments	15,898,677	—	15,719,535	35,693,138	3,972,942	1,805,321	83,006,446	3,886,799	72,974,850	14,367,908	—	—	247,325,616
Other long-term investments	—	6,658,976	23,179,891	79,064,221	8,405,395	1,217,411	190,506,585	47,676,998	42,496,345	33,848,791	578,760	—	433,633,373
Student notes receivable, net	—	1,182,878	1,904,730	13,260,915	1,009,893	—	19,126,483	25,227,441	6,820,202	31,514,138	—	—	100,046,680
Capital assets, net	146,476,417	118,290,467	270,854,125	946,360,354	97,766,819	102,398,265	1,007,041,811	568,657,439	611,916,560	4,484,197	—	—	3,874,246,454
Other noncurrent assets	144,366	—	26,125	—	—	190,276	69,900	—	4,259,720	—	—	—	4,690,987
Total noncurrent assets	166,538,295	125,507,077	313,812,927	1,087,633,996	109,881,634	106,281,640	1,330,037,600	645,448,824	891,218,841	84,215,034	578,760	—	4,861,154,628
Total assets	219,057,024	136,701,576	346,288,991	1,284,700,366	122,750,815	124,120,859	1,556,755,874	715,624,381	1,391,588,823	108,458,449	1,464,128	—	6,007,511,286
Deferred outflows of resources:													
Deferred amount of refundings	5,846,341	—	—	2,358,428	—	—	—	13,035,219	4,433,120	—	—	—	25,673,108
Pension related deferred outflows	13,566,030	7,371,104	22,253,148	92,196,373	7,198,850	6,765,624	54,558,710	36,448,522	234,030,466	2,600,140	118,046	—	477,107,013
Total assets and deferred outflows of resources	\$ 238,469,395	144,072,680	368,542,139	1,379,255,167	129,949,665	130,886,483	1,611,314,584	765,108,122	1,630,052,409	111,058,589	1,582,174	—	6,510,291,407

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Net Position

June 30, 2016

Liabilities	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Current liabilities:													
Accounts payable and accrued liabilities	\$ 2,462,436	3,242,587	13,148,838	27,739,143	2,764,026	1,889,409	31,181,400	19,162,658	110,720,185	2,183,700	195,685	—	214,690,067
Unearned revenues	2,252,986	885,585	3,182,797	28,572,773	1,416,572	157,624	55,889,910	16,320,237	16,340,417	—	—	—	125,018,901
Accrued leave liabilities – current portion	867,445	238,236	426,108	2,081,145	50,374	251,037	1,438,000	1,230,000	4,394,887	34,787	2,400	—	11,014,419
Long-term liabilities – current portion	1,300,860	1,245,233	3,123,985	11,385,000	146,891	453,690	14,594,485	7,362,999	10,791,690	10,084,613	—	—	60,489,446
Other current liabilities	—	—	—	43,089	314,498	52,210	3,500,470	47,598	22,837,974	—	—	—	26,795,839
Total current liabilities	6,883,727	5,611,641	19,881,728	69,821,150	4,692,361	2,803,970	106,604,265	44,123,492	165,085,153	12,303,100	198,085	—	438,008,672
Noncurrent liabilities:													
Net pension liability	71,034,832	42,181,402	130,840,285	487,619,653	35,499,410	37,755,185	287,872,551	204,738,145	1,087,561,173	16,593,427	1,231,115	—	2,402,927,178
Deposits refundable	663,914	128,195	70,369	40,433	—	30,689	88,072	13,543	—	—	—	—	1,035,215
Accrued leave liabilities	3,616,163	1,246,536	5,492,057	24,609,646	1,208,980	1,661,024	15,481,419	8,815,982	54,312,156	788,120	63,690	—	117,295,773
Long-term liabilities	50,204,677	17,335,575	93,188,659	307,080,000	228,025	18,483,814	274,012,212	180,119,817	251,002,988	31,725,209	—	—	1,223,380,976
Other long-term liabilities	—	1,927,036	1,823,012	13,709,097	1,006,946	—	9,326,700	26,582,159	32,846,322	—	—	—	87,221,272
Total noncurrent liabilities	125,519,586	62,818,744	231,414,382	833,058,829	37,943,361	57,930,712	586,780,954	420,269,646	1,425,722,639	49,106,756	1,294,805	—	3,831,860,414
Total liabilities	132,403,313	68,430,385	251,296,110	902,879,979	42,635,722	60,734,682	693,385,219	464,393,138	1,590,807,792	61,409,856	1,492,890	—	4,269,869,086
Deferred inflows of resources:													
Deferred amount of refundings	—	—	—	—	—	—	2,129,565	—	—	—	—	—	2,129,565
Pension related deferred inflows	3,120,331	1,565,206	2,778,380	12,528,421	867,858	2,438,277	7,556,549	8,353,503	25,670,867	432,409	107,454	—	65,419,255
Total liabilities and deferred inflows of resources	\$ 135,523,644	69,995,591	254,074,490	915,408,400	43,503,580	63,172,959	703,071,333	472,746,641	1,616,478,659	61,842,265	1,600,344	—	4,337,417,906
Net Position													
Net investment in capital assets	\$ 103,133,412	99,609,604	176,938,127	626,692,777	97,391,903	84,260,935	726,851,612	380,175,410	378,230,555	4,469,814	—	—	2,677,754,149
Restricted for:													
Nonexpendable:													
Scholarship and fellowships	—	—	7,545,377	2,308,513	823,996	804,071	7,470,521	569,090	—	1,006,944	—	—	20,528,512
Research	—	—	—	4,277,397	—	—	67,358	—	—	—	—	—	4,344,755
Other purposes	12,365,497	—	23,179,891	7,493,965	286,659	—	43,076,215	—	25,636,660	17,079,187	—	—	129,118,074
Expendable:													
Scholarships and fellowships	—	—	8,155,260	3,765,626	498,987	1,355,369	5,907,057	794,387	3,492,880	33,831,382	—	—	57,800,948
Research	—	—	—	23,000,368	—	—	4,379,459	—	27,739,181	—	—	—	55,119,008
Capital projects	—	—	124,746	(589,553)	1,879,019	85,650	6,062,973	—	—	—	—	—	7,562,835
Debt service	—	—	(685,207)	1,223,994	—	129,511	—	—	1,101,328	9,010	—	—	19,335,218
Loans	1,404,283	1,384,151	(885,207)	4,805,869	—	—	5,618,165	4,390,355	—	—	—	—	36,507,069
Other purposes	—	291,146	—	1,332,822	204,265	700,850	16,379,213	3,927,715	63,022,151	—	1,173,984	—	86,827,881
Unrestricted	(13,957,441)	(27,207,812)	(101,112,253)	(210,465,011)	(14,638,744)	(19,622,862)	78,286,419	(114,895,717)	(490,039,360)	(7,180,013)	(1,192,154)	—	(922,024,948)
Total net position	\$ 102,945,751	74,077,089	114,467,649	463,846,767	86,446,085	67,713,524	908,243,251	292,361,481	13,573,750	49,216,324	(18,170)	—	2,172,873,501

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2016

	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Operating revenues:													
Tuition and fees	\$ 21,012,406	21,140,848	69,069,941	235,797,272	19,790,198	13,301,470	311,834,424	131,212,467	30,957,146	—	—	—	854,116,172
Less:													
Scholarship allowances	(10,679,540)	(4,820,284)	(22,572,934)	(83,015,641)	(6,965,574)	(8,648,401)	(87,912,912)	(43,840,766)	(4,908,602)	—	—	—	(273,364,654)
Bad debt expense	(270,304)	(61,064)	(638,122)	(1,144,264)	(158,101)	(341,375)	(919,053)	(150,000)	(66,076)	—	—	—	(3,748,359)
Net tuition and fees	10,062,562	16,259,500	45,858,885	151,637,367	12,666,523	4,311,694	223,002,459	87,221,701	25,982,468	—	—	—	577,003,159
Federal appropriations	—	—	—	18,796,056	—	—	—	—	—	—	—	—	18,796,056
Federal grants and contracts	11,800,023	3,037,909	34,547,675	114,607,542	84,258	7,249,679	41,957,886	40,467,512	42,230,081	3,309,911	3,292,393	(35,839,673)	266,745,196
State grants and contracts	246,973	1,464,740	1,734,651	22,827,101	6,487,163	11,101	16,672,000	10,905,654	13,547,847	50,575	—	(27,867,856)	46,079,949
Nongovernmental grants and contracts	1,311,503	4,034,356	3,149,847	17,073,111	2,907,154	—	28,675,723	16,416,225	9,303,049	1,083,628	33,607	—	83,986,203
Sales and services of educational departments	986,161	1,327,213	1,584,774	42,385,659	1,628,509	2,194,183	7,764,535	3,087,960	974,901	3,550,404	68,953	(2,634,929)	62,918,323
Auxiliary enterprises:													
Student housing	9,153,547	3,706,949	14,591,687	25,659,559	2,123,088	3,626,829	25,839,261	16,453,997	—	—	—	—	101,154,917
Food services	4,403,575	2,966,428	11,412,237	2,515,379	1,755,931	2,875,280	2,942,818	2,736,904	—	—	—	—	31,608,552
Bookstore	85,254	107,667	—	774,036	121,524	1,297,403	702,880	1,283,000	2,480,056	—	—	—	6,851,820
Athletics	—	—	2,247,622	57,027,145	—	—	70,228,405	14,116,888	—	—	—	—	143,620,060
Other auxiliary revenues	621,627	1,785,193	2,242,144	12,784,128	198,037	1,495,797	12,679,635	4,552,297	1,389,454	2,316,526	—	—	41,264,838
Less auxiliary enterprise scholarship allowances	(2,838,865)	—	(9,067,593)	(8,805,663)	(1,383,177)	—	(6,820,830)	(2,412,294)	—	—	—	—	(31,328,422)
Interest earned on loans to students	—	23,565	—	249,845	—	—	511,848	—	194,038	—	—	—	979,296
Patient care revenues	—	—	—	—	—	—	—	—	1,086,205,305	—	—	—	1,086,205,305
Other operating revenues	3,391,625	888,082	5,909,326	4,527,204	89,369	1,059,238	12,414,751	8,042,664	65,318,709	16,368,201	17,861	(14,225,303)	103,801,727
Total operating revenues	39,223,985	35,601,602	115,411,255	462,058,469	26,678,379	24,121,204	436,569,371	202,872,508	1,247,625,908	26,679,245	3,412,814	(80,567,761)	2,539,686,979
Operating expenses:													
Salaries and wages	36,353,509	27,351,881	80,930,062	326,529,375	21,247,312	22,026,869	215,497,862	142,861,102	698,343,090	8,145,677	577,644	—	1,579,864,383
Fringe benefits	13,989,798	9,854,558	25,188,027	128,959,445	7,806,373	8,706,979	69,243,055	57,192,016	230,695,965	2,935,679	117,600	—	554,689,495
Travel	2,231,139	1,465,357	4,181,785	18,044,431	435,829	1,470,697	14,684,490	8,711,485	5,917,391	220,641	49,555	—	57,412,800
Contractual services	11,836,801	11,933,752	47,919,387	84,455,126	8,437,871	8,332,636	75,574,480	55,420,032	170,535,434	21,048,517	3,110,560	(52,699,905)	445,904,691
Utilities	3,650,075	1,630,696	5,441,013	14,774,791	2,697,424	1,870,151	12,280,534	9,859,093	11,998,884	653,289	—	—	64,855,950
Scholarships and fellowships	7,028,922	6,337,547	19,424,426	36,402,278	6,053,736	3,154,254	50,565,626	24,465,432	6,321,715	42,791,646	—	(27,867,856)	174,677,726
Commodities	4,433,788	4,171,584	6,438,753	34,374,765	2,209,130	3,992,579	26,487,085	15,916,632	279,166,712	313,416	66,600	—	377,571,345
Depreciation	4,080,940	3,863,405	8,344,887	32,985,045	2,330,500	2,518,663	31,494,977	17,135,409	44,132,768	163,103	—	—	147,049,697
Other operating expenses	511,237	6,894	3,764,376	—	—	—	350,070	—	155,579	5,116,882	1,419	—	9,906,457
Total operating expenses	84,116,209	66,615,674	201,632,716	676,525,256	51,218,175	52,072,828	496,178,179	331,561,502	1,447,267,538	81,388,850	3,923,378	(80,567,761)	3,411,932,544
Operating loss	(44,892,224)	(31,014,072)	(86,221,461)	(214,466,787)	(24,539,796)	(27,951,624)	(59,608,808)	(128,688,994)	(199,641,630)	(54,709,605)	(510,564)	—	(872,245,565)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2016

	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Nonoperating revenue (expenses):													
State appropriations	\$ 30,785,095	22,735,982	51,089,562	186,393,254	16,744,182	17,595,330	96,083,327	92,043,437	185,663,575	53,594,651	435,015	—	753,163,410
Gifts and grants	12,361,621	6,083,852	23,817,437	67,684,349	5,482,344	9,953,292	30,741,202	28,643,063	7,305,548	—	—	—	192,072,708
Investment income, net of investment expense	446,025	232,354	549,158	812,542	224,994	276,737	9,443,620	1,793,745	3,710,895	2,123,631	(13,287)	—	19,600,414
Interest expense on capital assets-related debt	(2,927,759)	—	(4,820,680)	(3,166,732)	(13,313)	(1,416,770)	(9,830,329)	(5,526,868)	(11,037,850)	—	—	—	(38,740,301)
Other nonoperating revenues	—	—	2,309,252	198,447	102,933	—	—	—	—	—	—	—	2,610,632
Other nonoperating expenses	—	(8,961,823)	—	(900,144)	(641,946)	—	(308,713)	—	—	(24,473,906)	—	23,870,000	(11,416,532)
Total net nonoperating revenues	<u>40,664,982</u>	<u>20,090,365</u>	<u>72,944,729</u>	<u>251,021,716</u>	<u>21,899,194</u>	<u>26,408,589</u>	<u>126,129,107</u>	<u>116,953,377</u>	<u>185,642,168</u>	<u>31,244,376</u>	<u>421,728</u>	<u>23,870,000</u>	<u>917,290,331</u>
Income (loss) before other revenues, expenses, gains and losses	(4,227,242)	(10,923,707)	(13,276,732)	36,554,929	(2,640,602)	(1,543,035)	66,520,299	(11,735,617)	(13,999,462)	(23,465,229)	(88,836)	23,870,000	45,044,766
Capital grants and gifts	—	—	—	5,128,863	—	—	14,621,662	10,200,949	13,636,792	—	—	—	43,588,266
State appropriations restricted for capital purposes	507,861	9,048,223	12,609,396	6,876,825	1,182,974	6,447,400	10,552,325	10,633,166	22,195,345	2,253,910	—	—	82,307,425
Additions to permanent endowments	1,415,000	—	23,870,000	—	131,092	4,639	7,344	—	98,231	—	—	(23,870,000)	1,656,306
Other additions	2,530,683	123,166	—	—	416,053	—	1,000,926	2,395,486	—	—	—	—	6,466,314
Other deletions	(166,481)	—	—	(285,663)	(324,079)	—	(2,456,772)	(810,539)	(926,640)	(1,074,877)	—	—	(6,045,051)
Changes in net position	<u>59,821</u>	<u>(1,752,318)</u>	<u>23,202,664</u>	<u>48,274,954</u>	<u>(1,234,562)</u>	<u>4,909,004</u>	<u>90,245,784</u>	<u>10,683,445</u>	<u>21,004,266</u>	<u>(22,286,196)</u>	<u>(88,836)</u>	<u>—</u>	<u>173,018,026</u>
Net position, beginning of the year	<u>102,885,930</u>	<u>75,829,407</u>	<u>91,264,985</u>	<u>415,571,813</u>	<u>87,680,647</u>	<u>62,804,520</u>	<u>817,997,467</u>	<u>281,678,036</u>	<u>(7,430,516)</u>	<u>71,502,520</u>	<u>70,666</u>	<u>—</u>	<u>1,999,855,475</u>
Net position, end of the year	<u>\$ 102,945,751</u>	<u>74,077,089</u>	<u>114,467,649</u>	<u>463,846,767</u>	<u>86,446,085</u>	<u>67,713,524</u>	<u>908,243,251</u>	<u>292,361,481</u>	<u>13,573,750</u>	<u>49,216,324</u>	<u>(18,170)</u>	<u>—</u>	<u>2,172,873,501</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Cash Flows

Year ended June 30, 2016

	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Operating activities:													
Tuition and fees	\$ 10,045,606	16,401,625	41,112,569	151,305,141	12,588,190	4,344,403	222,328,044	88,139,121	26,206,226	—	—	—	572,470,925
Grants and contracts	11,855,498	8,666,184	41,698,273	150,592,757	9,604,537	6,871,283	97,738,669	71,305,323	66,847,181	4,551,394	3,326,000	(63,707,529)	409,349,570
Sales and services of educational departments	986,161	1,327,213	2,124,614	43,241,450	1,652,414	2,194,183	7,693,312	3,087,960	976,772	3,832,767	68,953	—	64,550,870
Payments to suppliers	(20,234,280)	(17,089,776)	(60,758,111)	(139,353,164)	(11,067,013)	(13,825,170)	(103,238,613)	(79,147,343)	(455,743,300)	(21,395,943)	(3,226,715)	52,699,905	(872,379,523)
Payments to employees for salaries and benefits	(50,343,308)	(39,234,395)	(105,839,440)	(436,895,695)	(27,448,154)	(29,871,754)	(273,603,676)	(195,234,174)	(872,601,399)	(11,600,173)	(695,244)	—	(2,043,367,412)
Payments for utilities	(3,650,075)	(1,630,696)	(5,445,730)	(14,774,791)	(2,748,963)	(1,870,151)	(12,353,060)	(9,800,410)	(11,998,844)	(653,289)	—	—	(64,926,009)
Payment for scholarships and fellowships	(7,028,922)	(6,537,547)	(19,013,854)	(36,406,529)	(6,053,736)	(3,154,254)	(50,750,588)	(24,655,698)	(6,321,715)	(34,911,832)	—	27,867,856	(166,766,849)
Loans issued to students and employees	—	(35,122)	—	(3,986,296)	—	—	(3,729,033)	(5,119,648)	(1,559,546)	(7,399,115)	—	—	(21,828,760)
Collections of loans to students and employees	—	285,032	—	3,395,871	—	694	2,553,922	4,853,679	1,656,097	1,114,626	—	—	13,859,921
Auxiliary enterprise charges:													
Student housing	6,394,480	3,706,949	9,111,352	25,224,852	1,396,212	3,626,829	17,503,963	15,164,926	—	—	—	—	82,129,563
Food services	4,403,575	2,968,148	6,642,650	2,461,020	1,069,384	2,875,280	3,105,707	2,340,503	—	—	—	—	25,866,267
Bookstore	85,254	107,667	—	774,037	121,524	1,297,403	700,799	1,133,296	2,469,110	—	—	—	6,689,090
Athletics	—	—	2,247,622	56,894,819	—	—	73,358,080	11,865,301	—	—	—	—	144,365,822
Other auxiliary enterprises	621,627	1,785,193	3,442,145	4,468,639	192,833	1,392,057	13,076,792	4,541,605	1,390,120	2,251,492	—	—	33,162,503
Patient care services	—	—	—	—	—	—	—	—	1,042,311,163	—	—	—	1,042,311,163
Interest earned on loans to students	—	—	—	—	—	—	511,848	—	194,038	310,185	—	—	1,016,071
Other receipts	2,891,625	1,699,557	5,909,838	22,545,015	89,368	1,205,275	12,340,670	7,799,022	57,584,722	16,368,201	17,861	(14,225,303)	114,225,851
Other payments	—	(8,253)	—	—	—	—	(15,079,123)	—	(155,579)	5,878,316	(1,419)	—	(9,366,058)
Net cash used in operating activities	<u>(43,972,759)</u>	<u>(27,388,221)</u>	<u>(78,768,072)</u>	<u>(170,512,874)</u>	<u>(20,603,404)</u>	<u>(24,913,922)</u>	<u>(7,842,287)</u>	<u>(103,726,537)</u>	<u>(148,744,954)</u>	<u>(41,653,371)</u>	<u>(510,564)</u>	<u>—</u>	<u>(668,636,965)</u>
Noncapital financing activities:													
State appropriations	30,785,095	22,860,055	51,242,110	187,901,576	16,744,182	17,754,870	95,543,337	92,329,326	186,619,567	53,842,948	435,015	—	756,058,081
Gifts and grants for other than capital purposes	—	69,808	23,817,437	67,749,601	5,516,736	9,953,292	29,459,679	28,562,425	7,305,548	—	—	—	172,434,526
Private gifts for endowment purposes	1,415,000	—	23,870,000	—	131,092	—	—	7,344	98,231	—	—	—	25,521,667
Federal loan program receipts	31,908,512	20,825,936	79,567,340	116,050,847	14,034,037	18,096,687	104,188,349	85,156,666	32,687,768	—	—	—	502,516,142
Federal loan program disbursements	(31,908,512)	(20,825,936)	(79,567,340)	(116,191,575)	(14,034,037)	(18,096,687)	(104,188,349)	(85,065,902)	(32,688,758)	—	—	—	(502,567,096)
Other sources	—	9,048,224	—	—	339,460	—	160,143	1,682	—	—	—	—	9,549,509
Other uses	—	—	—	(873,594)	(876,679)	—	(6,222,154)	—	(176,885)	(24,491,736)	—	—	(32,641,048)
Net cash provided by noncapital financing activities	<u>32,200,095</u>	<u>31,978,087</u>	<u>98,929,547</u>	<u>254,636,855</u>	<u>21,854,791</u>	<u>27,708,162</u>	<u>118,948,349</u>	<u>120,984,197</u>	<u>193,845,471</u>	<u>29,351,212</u>	<u>435,015</u>	<u>—</u>	<u>930,871,781</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Cash Flows

Year ended June 30, 2016

	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Capital and related financing activities:													
Proceeds from capital debt	\$ —	—	—	—	—	17,598,814	99,065,613	70,793,434	—	—	—	—	187,457,861
Cash paid for capital assets	1,462,392	(431,096)	—	(92,453,488)	(1,821,968)	(392,407)	(111,752,304)	(20,690,388)	(74,439,468)	(19,073)	—	—	(300,537,800)
Capital appropriations received	—	—	—	2,229,296	42,680	—	1,988,947	—	—	—	—	—	4,260,923
Capital grants and contracts received	12,361,621	—	—	2,456,489	—	—	13,178,105	8,846,870	8,447,094	—	—	—	45,290,179
Proceeds from sales of capital assets	—	—	—	229,132	—	—	—	37,896	966,450	—	—	—	1,233,478
Principal paid on capital debt and leases	(500,000)	(814,839)	(3,712,408)	(9,725,000)	(142,919)	(16,260,000)	(45,991,084)	(68,179,516)	(5,355,000)	—	—	—	(150,680,766)
Interest paid on capital debt and leases	(2,250,938)	(2,726,629)	(4,820,680)	(14,514,128)	(13,313)	(1,167,278)	(9,168,460)	(5,387,714)	(11,985,543)	—	—	—	(52,034,683)
Other sources	—	142,141	3,359,840	—	—	(337,947)	1,363,040	800,118	—	—	—	—	5,327,192
Other uses	—	—	—	(9,799,334)	—	—	(1,011,610)	(9,051,059)	—	—	—	—	(19,862,003)
Net cash provided by (used in) capital and related financing activities	<u>11,073,075</u>	<u>(3,830,423)</u>	<u>(5,173,248)</u>	<u>(121,577,033)</u>	<u>(1,935,520)</u>	<u>(558,818)</u>	<u>(52,327,753)</u>	<u>(22,830,359)</u>	<u>(82,366,467)</u>	<u>(19,073)</u>	<u>—</u>	<u>—</u>	<u>(279,545,619)</u>
Investing activities:													
Proceeds from sales and maturities of investments	1,415,000	6,000,000	1,055,424	92,290,332	17,726,780	611,685	165,983,327	36,207,239	159,287,445	83,098,546	—	—	563,675,778
Interest received on investments	446,023	305,948	549,158	2,345,566	1,341,515	17,902	3,659,598	853,890	1,866,993	1,549,399	9,616	—	12,945,608
Purchases of investments	<u>(1,415,000)</u>	<u>(4,000,000)</u>	<u>(23,179,891)</u>	<u>(92,830,608)</u>	<u>(19,336,625)</u>	<u>(1,091,653)</u>	<u>(206,979,075)</u>	<u>(33,550,984)</u>	<u>(153,818,616)</u>	<u>(78,167,711)</u>	<u>(58,908)</u>	<u>—</u>	<u>(614,429,071)</u>
Net cash provided by (used in) investing activities	<u>446,023</u>	<u>2,305,948</u>	<u>(21,575,309)</u>	<u>1,805,290</u>	<u>(268,330)</u>	<u>(462,066)</u>	<u>(37,336,150)</u>	<u>3,510,145</u>	<u>7,335,822</u>	<u>6,480,234</u>	<u>(49,292)</u>	<u>—</u>	<u>(37,807,685)</u>
Net increase (decrease) in cash and cash equivalents	<u>(253,566)</u>	<u>3,065,391</u>	<u>(6,587,082)</u>	<u>(35,647,762)</u>	<u>(952,463)</u>	<u>1,773,356</u>	<u>21,442,159</u>	<u>(2,062,554)</u>	<u>(29,930,128)</u>	<u>(5,840,998)</u>	<u>(124,841)</u>	<u>—</u>	<u>(55,118,488)</u>
Cash and cash equivalents – beginning of year	<u>38,113,985</u>	<u>1,287,697</u>	<u>12,706,144</u>	<u>143,978,211</u>	<u>7,326,505</u>	<u>8,873,461</u>	<u>56,589,394</u>	<u>41,092,819</u>	<u>375,290,566</u>	<u>15,584,834</u>	<u>786,841</u>	<u>—</u>	<u>701,630,457</u>
Cash and cash equivalents – end of year	<u>\$ 37,860,419</u>	<u>4,353,088</u>	<u>6,119,062</u>	<u>108,330,449</u>	<u>6,374,042</u>	<u>10,646,817</u>	<u>78,031,553</u>	<u>39,030,265</u>	<u>345,360,438</u>	<u>9,743,836</u>	<u>662,000</u>	<u>—</u>	<u>646,511,969</u>

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Combining Statement of Cash Flows

Year ended June 30, 2016

	Alcorn State University	Delta State University	Jackson State University	Mississippi State University	Mississippi University for Women	Mississippi Valley State University	University of Mississippi	University of Southern Mississippi	University of Mississippi Medical Center	IHL Board Office	MCVS	Elimination entries	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating loss	\$ (44,892,224)	(31,014,072)	(86,221,461)	(214,466,787)	(24,539,796)	(27,951,624)	(59,608,808)	(128,688,994)	(199,641,630)	(54,709,605)	(510,564)	—	(872,245,565)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:													
Depreciation expenses	4,080,940	3,863,405	8,344,887	32,985,045	2,330,500	2,518,663	31,494,977	17,135,409	44,132,768	163,103	—	—	147,049,697
Self-insurance claims expense	—	—	—	—	—	—	—	—	3,991,148	6,504,256	—	—	10,495,404
Provision for uncollectible accounts receivable	—	(61,094)	613,132	1,144,264	158,101	341,375	919,053	—	152,653,950	154,456	—	—	155,923,237
Other	—	61,094	(514,759)	5,959	(3,938,248)	(432,056)	49,046	150,000	—	4,951,001	(7,045)	—	324,992
Changes in assets and liabilities:													
(Increase) decrease in assets:													
Receivables, net	(1,913,328)	1,472,863	(1,960,490)	(4,094,503)	28,338	(170,317)	4,846,574	3,028,917	(186,639,218)	568,457	230,012	—	(184,602,695)
Inventories	(33,859)	2,045	(521,651)	(1,050,151)	—	79,640	118,745	63,285	(1,235,216)	12,810	—	—	(2,564,352)
Prepaid expenses	—	(1,429)	—	5,695,919	203,513	41,567	(3,240,825)	(48,167)	(3,301,634)	13,056	(128,692)	—	(766,692)
Other assets	—	(149,340)	—	—	(40,378)	(2,489,780)	—	(20,471,120)	(8,233,403)	(1,522,810)	—	—	(32,906,831)
Increase (decrease) in liabilities:													
Accounts payable and accrued liabilities	(1,626,406)	444,174	302,726	290,173	(428,140)	(114,142)	(999,423)	(539,726)	10,958,017	160,765	(188,808)	—	8,259,210
Unearned revenue	266,118	310,717	346,531	(1,537,957)	(33,324)	17,020	9,031,187	87,804	2,111,117	—	—	—	10,599,213
Deposits refundable	61,984	(4,962)	43,959	8,798	—	(962)	(12,150)	(19,680)	—	—	—	—	76,987
Accrued leave liability	(96,778)	(75,076)	562,806	(1,459,617)	33,875	314,511	1,014,225	(17,353)	3,659,220	4,755	6,531	—	3,947,099
Loans to students and employees	—	—	—	—	—	—	8,545,112	(148,011)	—	—	—	—	8,397,101
Other liabilities	180,794	(2,236,546)	236,248	11,965,983	5,622,155	2,932,183	—	25,741,099	32,799,927	2,046,385	88,002	—	79,376,230
Total adjustments	919,465	3,625,851	7,453,389	43,953,913	3,936,392	3,037,702	51,766,521	24,962,457	50,896,676	13,056,234	—	—	203,608,600
Net cash used in operating activities	\$ (43,972,759)	(27,388,221)	(78,768,072)	(170,512,874)	(20,603,404)	(24,913,922)	(7,842,287)	(103,726,537)	(148,744,954)	(41,653,371)	(510,564)	—	(668,636,965)
Noncash capital related financing and investing activities:													
Capital assets acquired through donations and capital lease obligations	\$ 507,861	9,048,223	12,609,396	6,876,825	1,182,974	6,447,400	10,552,325	10,633,166	22,195,345	2,253,910	—	—	82,307,425
Capital appropriations from the State of Mississippi	—	—	—	—	—	407,504	46,887,841	1,595,368	159,984	—	—	—	49,050,697

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Required Supplementary Information (Unaudited)

Schedule of Proportionate Share of Net Pension Liability

Year ended June 30, 2016

	Proportionate share of the net pension liability	Proportionate share of the net pension liability	Estimated Covered- employee payroll provided by PERS	Proportionate share of the net pension liability as a percentage of its covered- employee payroll	PERS fiduciary net position as a of the percentage total pension liability
Alcorn State University:					
2015	0.47%	56,758,259	28,572,870	199.00%	67.00%
2016	0.46	71,034,832	28,709,073	247.43	61.70
Delta State University:					
2015	0.28	33,537,396	16,883,175	199.00	67.00
2016	0.27	42,181,402	17,047,771	247.43	61.70
Jackson State University:					
2015	0.83	100,387,620	50,536,476	199.00	67.00
2016	0.85	130,840,285	52,898,190	247.43	61.70
Mississippi State University:					
2015	3.11	377,668,592	190,123,441	199.00	67.00
2016	3.15	487,619,653	197,073,543	247.43	61.70
Mississippi University for Women:					
2015	0.22	27,087,951	13,636,438	199.00	67.00
2016	0.23	35,499,410	14,347,232	247.43	61.70
Mississippi Valley State University:					61.70
2015	0.26	31,120,964	15,666,711	199.00	67.00
2016	0.24	37,755,185	15,258,908	247.43	61.70
University of Mississippi:					
2015	1.85	224,435,474	112,983,803	199.00	67.00
2016	1.86	287,872,551	116,344,946	247.43	61.70
University of Southern Mississippi:					
2015	1.35	163,430,215	82,272,965	199.00	67.00
2016	1.32	204,738,145	82,745,841	247.43	61.70
University of Mississippi Medical Center:					
2015	6.76	821,435,313	413,521,568	199.00	67.00
2016	7.04	1,087,561,173	439,542,508	247.43	61.70
IHL Board Office:					
2015	0.10	13,082,977	6,586,146	199.00	67.00
2016	0.11	16,593,427	6,706,305	247.43	61.70
MCVS:					
2015	0.01	1,092,239	549,848	199.00	67.00
2016	0.01	1,231,115	503,886	244.32	61.70
2015 Total	15.24	1,850,037,000	931,333,441	199.00	67.00
2016 Total	15.54%	2,402,927,178	971,178,203	247.42%	61.70%

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Required Supplementary Information (Unaudited)

Schedule of Proportionate Share of Contributions

Year ended June 30, 2016

	Proportionate share of contributions	Required contributions	Contribution deficiency (excess)	Actual Covered- employee payroll	Contributions as a percentage of covered- employee payroll
Alcorn State University:					
2015	4,487,694	(4,487,694)	—	28,493,295	15.75%
2016	4,578,969	(4,578,969)	—	29,072,818	15.75
Delta State University:					
2015	2,664,943	(2,664,943)	—	16,920,273	15.75
2016	2,629,908	(2,629,908)	—	16,697,827	15.75
Jackson State University:					
2015	8,271,356	(8,271,356)	—	52,516,546	15.75
2016	8,653,220	(8,653,220)	—	54,940,820	15.75
Mississippi State University:					
2015	30,812,946	(30,812,946)	—	195,637,752	15.75
2016	32,082,720	(32,082,720)	—	203,700,062	15.75
Mississippi University for Women:					
2015	2,243,470	(2,243,470)	—	14,244,254	15.75
2016	2,316,938	(2,316,938)	—	14,710,717	15.75
Mississippi Valley State University:					
2015	2,384,644	(2,384,644)	—	15,140,597	15.75
2016	2,491,943	(2,491,943)	—	15,821,863	15.75
University of Mississippi:					
2015	18,189,943	(18,189,943)	—	115,491,702	15.75
2016	18,587,600	(18,587,600)	—	118,016,509	15.75
University of Southern Mississippi:					
2015	12,934,612	(12,934,612)	—	82,124,521	15.75
2016	13,009,957	(13,009,957)	—	82,602,900	15.75
University of Mississippi Medical Center:					
2015	68,736,092	(68,736,092)	—	436,419,632	15.75
2016	71,818,771	(71,818,771)	—	455,992,197	15.75
IHL Board Office:					
2015	1,048,459	(1,048,459)	—	6,656,883	15.75
2016	959,854	(959,854)	—	6,094,318	15.75
MCVS:					
2015	78,708	(78,708)	—	499,733	15.75
2016	88,482	(88,482)	—	561,790	15.75
2015 Total	<u>151,852,867</u>	<u>(151,852,867)</u>	<u>—</u>	<u>964,145,188</u>	<u>15.75</u>
2016 Total	<u>157,218,362</u>	<u>(157,218,362)</u>	<u>—</u>	<u>998,211,821</u>	<u>15.75%</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

Notes to Required Supplementary Information (Unaudited)

June 30, 2016

(1) Schedule of Proportionate Share of Net Pension Liability

This schedule presents historical trend information about the IHL System'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 IHL System's Contributions

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

(3) Changes in Assumptions and Benefit Terms

Changes of assumptions: In 2015, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB, rather than the RP-2000 Mortality Table that was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table that was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, in 2016 the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75 percent, respectively.

Changes of benefit terms: Amounts reported for fiscal year 2016 and 2015 reflect no changes in benefit terms.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(THIS PAGE LEFT BLANK INTENTIONALLY)



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

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees
State of Mississippi Institutions of Higher Learning:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the State of Mississippi Institutions of Higher Learning (the IHL System), a component unit of the State of Mississippi (the State), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise IHL System's basic financial statements, and have issued our report thereon dated December 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the University of Mississippi Medical Center Education Building Corporation, the University of Mississippi Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund, and the State Institutions of Higher Learning Tort Liability Fund, as described in our report on the IHL System's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

As described in our report on the IHL System's financial statements, the financial statements of the Mississippi State University Foundation, Inc., the University of Mississippi Foundation, the University of Southern Mississippi Foundation, the University of Mississippi Medical Center Educational Building Corporation, the University of Mississippi Educational Building Corporation, the University of Mississippi Medical Center Tort Claims Fund, the State Institutions of Higher Learning Self-Insured Workers' Compensation Fund, and the State Institutions of Higher Learning Tort Liability Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the IHL System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IHL System's internal control. Accordingly, we do not express an opinion on the effectiveness of the IHL System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(THIS PAGE LEFT BLANK INTENTIONALLY)



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IHL System's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the IHL System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IHL System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Jackson, Mississippi
December 21, 2016

(THIS PAGE LEFT BLANK INTENTIONALLY)

**COMPONENT UNIT ADDITIONAL INFORMATION
FOR INCLUSION IN THE STATE OF MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

(THIS PAGE LEFT BLANK INTENTIONALLY)

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Combining Schedule of Net Position

June 30, 2016

Assets	IHL System only	DFA reclass entry	MSU Foundation	UM Foundation	USM Foundation	Foundation eliminations	Total
Current assets:							
Equity in internal investment pool	\$ —	—	—	—	—	—	—
Cash and cash equivalents	461,021,888	—	2,604,925	8,728,828	1,085,377	—	473,441,018
Short-term investments	220,559,840	—	12,662,623	4,713,828	—	—	237,936,291
Accounts receivable, net	374,690,496	(47,654,330)	—	—	—	—	327,036,166
Affiliate lease and accounts receivable	—	—	—	—	479,945	(479,945)	—
Notes and pledges receivable, net	15,766,208	—	10,969,531	7,560,911	4,248,817	—	38,545,467
Due from other governments	—	47,654,330	—	—	—	—	47,654,330
Inventories	32,210,811	—	—	—	—	—	32,210,811
Prepaid expenses	33,075,731	—	—	—	—	—	33,075,731
Other current assets	9,031,684	—	384,010	—	1,131,452	—	10,547,146
Total current assets	1,146,356,658	—	26,621,089	21,003,567	6,945,591	(479,945)	1,200,446,960
Noncurrent assets:							
Investments	433,633,373	—	116,722,153	94,249,483	—	—	644,605,009
Notes and pledges receivable, net	100,046,680	—	27,448,887	43,982,022	3,975,699	—	175,453,288
Restricted assets:							
Cash and cash equivalents	185,490,081	—	5,695,276	—	—	—	191,185,357
Short term investments	15,721,437	—	—	—	—	—	15,721,437
Investments	247,325,616	—	328,112,776	297,720,580	96,668,501	(41,663,829)	928,163,644
Capital assets, net of accumulated depreciation	3,874,246,454	—	8,968,555	2,542,793	38,183	—	3,885,795,985
Other noncurrent assets	4,690,987	—	—	8,741,395	4,883,516	—	18,315,898
Total noncurrent assets	4,861,154,628	—	486,947,647	447,236,273	105,565,899	(41,663,829)	5,859,240,618
Total assets	6,007,511,286	—	513,568,736	468,239,840	112,511,490	(42,143,774)	7,059,687,578
Deferred outflows of resources:							
Deferred loss on refunding of debt	25,673,108	—	—	—	—	—	25,673,108
Pension related deferred outflows	477,107,013	—	—	—	—	—	477,107,013
Total deferred outflows of resources	502,780,121	—	—	—	—	—	502,780,121
Total assets and deferred outflows of resources	\$ 6,510,291,407	—	513,568,736	468,239,840	112,511,490	(42,143,774)	7,562,467,699

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Combining Schedule of Net Position

June 30, 2016

Liabilities and Net Position	IHL System only	DFA reclass entry	MSU Foundation	UM Foundation	USM Foundation	Foundation eliminations	Total
Liabilities:							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 214,690,067	(514,636)	7,264,639	—	371,992	—	221,812,062
Due to primary government	—	514,636	—	—	—	—	514,636
Unearned revenues	125,018,901	—	—	—	—	—	125,018,901
Bonds and notes payable	40,670,201	—	—	—	—	—	40,670,201
Lease obligations payable	4,750,632	—	—	—	—	(197,141)	4,553,491
Current portion of noncurrent liabilities	26,083,032	—	729,874	750,981	51,803	—	27,615,690
Other current liabilities	26,795,839	—	—	7,558,472	—	—	34,354,311
Total current liabilities	438,008,672	—	7,994,513	8,309,453	423,795	(197,141)	454,539,292
Noncurrent liabilities:							
Bonds and notes payable	1,091,635,976	—	—	—	—	—	1,091,635,976
Lease obligations payable	99,136,889	—	—	—	—	(282,804)	98,854,085
Net pension liability	2,402,927,178	—	—	—	—	—	2,402,927,178
Other noncurrent liabilities	238,160,371	—	4,135,951	26,880,016	234,378	—	269,410,716
Total noncurrent liabilities	3,831,860,414	—	4,135,951	26,880,016	234,378	(282,804)	3,862,827,955
Total liabilities	4,269,869,086	—	12,130,464	35,189,469	658,173	(479,945)	4,317,367,247
Deferred inflows of resources:							
Deferred inflows related to pension and refundings	67,548,820	—	—	—	—	—	67,548,820
Total deferred inflows of resources	67,548,820	—	—	—	—	—	67,548,820
Total liabilities and deferred inflows of resources	4,337,417,906	—	12,130,464	35,189,469	658,173	(479,945)	4,384,916,067
Net position:							
Net investment in capital assets	2,677,754,149	—	8,968,555	2,542,793	38,183	—	2,689,303,680
Restricted for:							
Other purposes	263,152,959	—	81,381,257	193,482,320	33,689,732	—	571,706,268
Permanent endowments:							
Nonexpendable	153,991,341	—	340,116,528	223,219,104	72,139,550	—	789,466,523
Unrestricted	(922,024,948)	—	70,971,932	13,806,154	5,985,852	(41,663,829)	(872,924,839)
Total net position	\$ 2,172,873,501	—	501,438,272	433,050,371	111,853,317	(41,663,829)	3,177,551,632

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Combining Schedule of Activities

Year ended June 30, 2016

Functions/programs	Expenses	Program revenues			Net revenue (expense) and changes in net position					
		Charges for services	Operating grants and contributions	Capital grants and contributions	IHL System	MSU Foundation	UM Foundation	USM Foundation	Foundation Eliminations	Total
IHL System	\$ 3,471,882,787	2,127,827,934	415,607,404	43,588,266	(884,859,183)	—	—	—	—	(884,859,183)
MSU Foundation	46,734,634	—	29,716,082	—	—	(17,018,552)	—	—	—	(17,018,552)
UM Foundation	34,150,873	—	53,069,813	—	—	—	18,918,940	—	—	18,918,940
USM Foundation	12,026,636	—	5,168,994	—	—	—	—	(6,857,642)	—	(6,857,642)
Total universities	<u>\$ 3,564,794,930</u>	<u>2,127,827,934</u>	<u>503,562,293</u>	<u>43,588,266</u>	<u>(884,859,183)</u>	<u>(17,018,552)</u>	<u>18,918,940</u>	<u>(6,857,642)</u>	<u>—</u>	<u>(889,816,437)</u>
General revenues:										
Interest and investment income					19,600,414	(15,987,904)	(5,841,647)	(311,165)	16,143,129	13,602,827
Other					201,149,654	—	—	—	—	201,149,654
Payment from State of Mississippi					835,470,835	—	—	—	—	835,470,835
Contributions to permanent endowments					1,656,306	19,193,333	9,452,422	7,312,426	—	37,614,487
Total general revenues and contributions					<u>1,057,877,209</u>	<u>3,205,429</u>	<u>3,610,775</u>	<u>7,001,261</u>	<u>16,143,129</u>	<u>1,087,837,803</u>
Change in net position					<u>\$ 173,018,026</u>	<u>(13,813,123)</u>	<u>22,529,715</u>	<u>143,619</u>	<u>16,143,129</u>	<u>198,021,366</u>
Net position – beginning of the year										<u>2,979,530,266</u>
Net position – end of the year										<u>\$ 3,177,551,632</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Accounts Receivable Disclosure

June 30, 2016

	Per IHL System	DFA Reclass	Total
Student tuition	\$ 100,201,333	—	100,201,333
Auxiliary enterprises and other operating activities	32,949,571	—	32,949,571
Contributions and gifts	13,076,893	—	13,076,893
Federal, state, and private grants and contracts	101,889,020	(36,936,597)	64,952,423
State appropriations	10,717,733	(10,717,733)	—
Accrued interest	8,196,977	—	8,196,977
Patient income	2,679,953,202	—	2,679,953,202
Other	21,782,103	—	21,782,103
Total accounts receivable	2,968,766,832	(47,654,330)	2,921,112,502
Less bad debt provision	(2,594,076,336)	—	(2,594,076,336)
Net accounts receivable	\$ 374,690,496	(47,654,330)	327,036,166

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Notes and Pledges Receivable Disclosure

June 30, 2016

	Interest rates	Total	Current portion	Noncurrent portion
From students:				
Perkins student loans	3% to 9%	\$ 68,526,797	7,971,332	60,555,465
Nursing student loans	3% to 9%	1,394,542	134,227	1,260,315
Other federal loans	3% to 9%	3,987,580	2,158,859	1,828,721
Institutional loans	0% to 10%	60,471,743	7,960,012	52,511,731
Medical student loans	3% to 9%	169,517	12,772	156,745
Dental student loans	3% to 9%	460,519	39,665	420,854
Notes and pledges:				
Foundations		104,661,951	23,984,624	80,677,327
Total notes and pledges receivable		239,672,649	42,261,491	197,411,158
Less allowance for doubtful accounts		25,673,894	3,716,024	21,957,870
Net notes and pledges receivable		\$ 213,998,755	38,545,467	175,453,288
Foundation notes and pledges, before allowance for doubtful accounts:				
MSU Foundation		\$ 39,280,075	11,215,558	28,064,517
UM Foundation		56,790,360	8,330,655	48,459,705
USM Foundation		8,591,516	4,438,411	4,153,105
		\$ 104,661,951	23,984,624	80,677,327
Summary of allowance for doubtful accounts:				
IHL Universities		\$ 19,197,810	2,510,659	16,687,151
MSU Foundation		861,657	246,027	615,630
UM Foundation		5,247,427	769,744	4,477,683
USM Foundation		367,000	189,594	177,406
		\$ 25,673,894	3,716,024	21,957,870

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Assets under Capital Lease Disclosure

June 30, 2016

	Cost basis	Accumulated depreciation	Net book value
Delta State University	\$ 19,017,530	3,372,558	15,644,972
University of Mississippi	116,659,391	1,665,001	114,994,390
University of Southern Mississippi	1,993,738	1,313,300	680,438
Mississippi University for Women	725,000	350,084	374,916
	<u>\$ 138,395,659</u>	<u>6,700,943</u>	<u>131,694,716</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Capital Assets Disclosure

Year ended June 30, 2016

	Balance June 30, 2015	Additions	Deletions/ transfers	Balance June 30, 2016
Nondepreciable capital assets:				
Land	\$ 91,673,137	14,231,043	(1,528,956)	104,375,224
Construction in progress	542,393,985	354,696,182	(245,007,578)	652,082,589
Livestock	1,841,819	277,666	(229,131)	1,890,354
Total nondepreciable capital assets	<u>635,908,941</u>	<u>369,204,891</u>	<u>(246,765,665)</u>	<u>758,348,167</u>
Depreciable capital assets:				
Improvements other than buildings	337,478,533	11,099,750	(274,168)	348,304,115
Buildings	3,308,691,537	235,049,500	(4,070,938)	3,539,670,099
Equipment	809,656,254	59,788,758	(26,667,818)	842,777,194
Library books	390,159,181	13,451,971	(975,896)	402,635,256
Total depreciable capital assets	<u>4,845,985,505</u>	<u>319,389,979</u>	<u>(31,988,820)</u>	<u>5,133,386,664</u>
Total capital assets	<u>5,481,894,446</u>	<u>688,594,870</u>	<u>(278,754,485)</u>	<u>5,891,734,831</u>
Less accumulated depreciation:				
Improvements other than buildings	130,261,392	12,136,971	(99,482)	142,298,881
Buildings	861,053,782	65,323,799	(1,340,141)	925,037,440
Equipment	563,954,225	56,196,867	(23,963,582)	596,187,510
Library books	329,268,006	14,098,928	(951,919)	342,415,015
Total accumulated depreciation	<u>1,884,537,405</u>	<u>147,756,565</u>	<u>(26,355,124)</u>	<u>2,005,938,846</u>
Net capital assets	<u>\$ 3,597,357,041</u>	<u>540,838,305</u>	<u>(252,399,361)</u>	<u>3,885,795,985</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Construction Commitments and Financing Disclosure

June 30, 2016

	Cost to complete	Funded by			
		Federal sources	State sources	Institutional funds	Other
Alcorn State University	\$ 12,283,259	—	12,283,259	—	—
Delta State University	1,858,722	—	1,858,722	—	—
Jackson State University	21,093,151	—	21,093,151	—	—
Mississippi State University	473,358,324	8,532,729	114,043,107	292,904,176	57,878,312
Mississippi University for Women	48,031	—	—	48,031	—
Mississippi Valley State University	16,771,940	—	16,771,940	—	—
University of Mississippi	335,267,700	3,492,600	34,393,500	255,016,700	42,364,900
University of Southern Mississippi	52,806,486	9,486,300	27,655,490	15,664,696	—
University of Mississippi Medical Center	82,861,747	9,248,627	38,152,735	25,899,287	9,561,098
Total Construction Commitments	\$ 996,349,360	30,760,256	266,251,904	589,532,890	109,804,310

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Long-Term Liabilities Disclosure (Rollforward)

Year ended June 30, 2016

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due within 1 year
Bonded debt	\$ 1,072,022,814	223,943,245	174,479,189	1,121,486,870	39,104,150
Notes payable	16,203,322	9,500,000	14,884,015	10,819,307	1,566,051
	<u>1,088,226,136</u>	<u>233,443,245</u>	<u>189,363,204</u>	<u>1,132,306,177</u>	<u>40,670,201</u>
Capital lease obligations	71,057,522	38,867,146	5,634,190	104,290,478	4,553,491
Other long-term liabilities:					
Pension liability	1,850,037,000	626,283,305	73,393,127	2,402,927,178	—
Accrued leave liability	121,443,859	13,314,365	6,448,032	128,310,192	11,014,419
Deposits refundable	958,228	114,741	37,754	1,035,215	—
Funds held in trust for others	23,360,075	5,909,150	7,212,697	22,056,528	750,981
Other noncurrent liabilities	<u>146,816,752</u>	<u>3,882,603</u>	<u>5,957,786</u>	<u>144,741,569</u>	<u>15,850,290</u>
Total other long-term liabilities	<u>2,142,615,914</u>	<u>649,504,164</u>	<u>93,049,396</u>	<u>2,699,070,682</u>	<u>27,615,690</u>
Total	<u>\$ 3,301,899,572</u>	<u>921,814,555</u>	<u>288,046,790</u>	<u>3,935,667,337</u>	<u>72,839,382</u>
Due within one year				(72,839,382)	
Total long-term liabilities				<u>\$ 3,862,827,955</u>	

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information
Schedule of Debt Service Disclosure (IHL System Only by Institution)
June 30, 2016

	<u>Total</u>	<u>Bonded debt</u>	<u>Bonded debt interest</u>	<u>Notes payable</u>	<u>Notes payable interest</u>	<u>Capital leases</u>	<u>Capital lease interest</u>	<u>Total interest</u>
IHL System Universities Only:								
2017	\$ 97,244,737	39,104,150	44,885,576	1,566,051	262,836	4,750,632	6,675,492	51,823,904
2018	92,122,936	35,607,927	44,015,510	1,137,948	227,079	4,868,970	6,265,502	50,508,091
2019	92,203,486	37,549,349	43,403,229	992,245	200,234	4,180,043	5,878,386	49,481,849
2020	91,002,949	37,809,823	42,409,297	1,018,668	173,810	4,081,459	5,509,892	48,092,999
2021	91,671,370	39,735,740	41,311,311	1,043,797	146,681	4,306,364	5,125,477	46,583,469
2022–2026	440,157,889	202,294,465	183,459,409	5,058,598	340,061	28,634,513	20,370,843	204,170,313
2027–2031	403,629,555	228,314,662	139,991,484	—	—	24,354,757	10,968,652	150,960,136
2032–2036	352,318,293	232,688,485	90,113,695	—	—	26,560,139	2,955,974	93,069,669
2037–2041	233,657,421	193,214,664	37,201,045	—	—	3,033,546	208,166	37,409,211
2042–2046	79,729,412	75,167,605	4,561,807	—	—	—	—	4,561,807
	<u>\$ 1,973,738,048</u>	<u>1,121,486,870</u>	<u>671,352,363</u>	<u>10,819,307</u>	<u>1,350,701</u>	<u>104,770,423</u>	<u>63,958,384</u>	<u>736,661,448</u>
Alcorn State University:								
2017	\$ 3,050,452	1,300,860	1,749,592	—	—	—	—	1,749,592
2018	2,578,700	720,000	1,858,700	—	—	—	—	1,858,700
2019	2,635,325	815,000	1,820,325	—	—	—	—	1,820,325
2020	2,696,650	915,000	1,781,650	—	—	—	—	1,781,650
2021	2,870,750	1,130,000	1,740,750	—	—	—	—	1,740,750
2022–2026	15,181,300	7,255,000	7,926,300	—	—	—	—	7,926,300
2027–2031	15,951,625	10,115,000	5,836,625	—	—	—	—	5,836,625
2032–2036	16,198,750	12,845,000	3,353,750	—	—	—	—	3,353,750
2037–2041	17,265,702	16,409,677	856,025	—	—	—	—	856,025
	<u>\$ 78,429,254</u>	<u>51,505,537</u>	<u>26,923,717</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,923,717</u>
Delta State University:								
2017	\$ 2,030,882	535,000	85,055	—	—	710,233	700,594	785,649
2018	2,038,566	555,000	66,738	—	—	744,035	672,793	739,531
2019	1,738,744	580,000	45,881	—	—	467,994	644,869	690,750
2020	1,268,663	155,000	31,813	—	—	455,000	626,850	658,663
2021	1,264,162	160,000	25,512	—	—	470,000	608,650	634,162
2022–2026	5,963,195	530,000	34,319	—	—	2,670,000	2,728,876	2,763,195
2027–2031	5,397,840	—	—	—	—	3,325,000	2,072,840	2,072,840
2032–2036	5,396,404	—	—	—	—	4,190,000	1,206,404	1,206,404
2037–2041	3,241,712	—	—	—	—	3,033,546	208,166	208,166
	<u>\$ 28,340,168</u>	<u>2,515,000</u>	<u>289,318</u>	<u>—</u>	<u>—</u>	<u>16,065,808</u>	<u>9,470,042</u>	<u>9,759,360</u>
Jackson State University:								
2017	\$ 7,572,059	2,929,367	4,389,355	97,879	14,868	96,739	43,851	4,448,074
2018	7,929,228	3,348,915	4,327,246	100,837	11,910	101,200	39,120	4,378,276
2019	7,928,642	3,433,915	4,241,661	103,885	8,862	105,867	34,452	4,284,975
2020	7,927,650	3,533,915	4,140,668	107,025	5,722	110,750	29,570	4,175,960
2021	7,926,807	3,663,915	4,009,825	110,260	2,487	115,858	24,462	4,036,774
2022–2026	38,849,256	21,364,575	16,993,562	—	—	449,227	41,892	17,035,454
2027–2031	38,362,525	27,654,575	10,707,950	—	—	—	—	10,707,950
2032–2036	25,316,542	22,097,542	3,219,000	—	—	—	—	3,219,000
2037–2041	4,336,880	3,626,880	710,000	—	—	—	—	710,000
2042–2046	3,367,518	3,159,518	208,000	—	—	—	—	208,000
	<u>\$ 149,517,107</u>	<u>94,813,117</u>	<u>52,947,267</u>	<u>519,886</u>	<u>43,849</u>	<u>979,641</u>	<u>213,347</u>	<u>53,204,463</u>
Mississippi State University:								
2017	\$ 25,395,324	11,385,000	14,010,324	—	—	—	—	14,010,324
2018	23,453,756	9,775,000	13,678,756	—	—	—	—	13,678,756
2019	23,525,186	10,195,000	13,330,186	—	—	—	—	13,330,186
2020	23,521,199	10,565,000	12,956,199	—	—	—	—	12,956,199
2021	23,523,384	10,995,000	12,528,384	—	—	—	—	12,528,384
2022–2026	112,235,631	57,305,000	54,930,631	—	—	—	—	54,930,631
2027–2031	96,533,384	54,540,000	41,993,384	—	—	—	—	41,993,384
2032–2036	88,757,899	59,705,000	29,052,899	—	—	—	—	29,052,899
2037–2041	73,447,655	58,500,000	14,947,655	—	—	—	—	14,947,655
2042–2046	38,126,307	35,500,000	2,626,307	—	—	—	—	2,626,307
	<u>\$ 528,519,725</u>	<u>318,465,000</u>	<u>210,054,725</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>210,054,725</u>

state of Mississippi institutions of higher learning
State of Mississippi Component Unit Additional Information
Schedule of Debt Service Disclosure (IHL System Only by Institution)
June 30, 2016

	Total	Bonded debt	Bonded debt interest	Notes payable	Notes payable interest	Capital leases	Capital lease interest	Total interest
Mississippi University for Women:								
2017	\$ 156,232	—	—	—	—	146,891	9,341	9,341
2018	156,232	—	—	—	—	150,973	5,259	5,259
2019	78,115	—	—	—	—	77,052	1,063	1,063
	<u>\$ 390,579</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>374,916</u>	<u>15,663</u>	<u>15,663</u>
Mississippi Valley State University:								
2017	\$ 1,446,526	375,000	985,106	—	—	78,690	7,730	992,836
2018	1,191,526	255,000	850,106	—	—	79,466	6,954	857,060
2019	1,843,026	585,000	1,171,606	—	—	81,264	5,156	1,176,762
2020	1,907,725	625,000	1,196,306	—	—	83,102	3,317	1,199,623
2021	1,991,624	675,000	1,230,206	—	—	84,982	1,436	1,231,642
2022–2026	9,146,055	3,325,000	5,821,055	—	—	—	—	5,821,055
2027–2031	11,089,387	4,570,000	6,519,387	—	—	—	—	6,519,387
2032–2036	14,091,088	6,525,000	7,566,088	—	—	—	—	7,566,088
2037–2041	3,249,813	1,595,000	1,654,813	—	—	—	—	1,654,813
	<u>\$ 45,956,770</u>	<u>18,530,000</u>	<u>26,994,673</u>	<u>—</u>	<u>—</u>	<u>407,504</u>	<u>24,593</u>	<u>27,019,266</u>
University of Mississippi:								
2017	\$ 24,523,769	10,546,322	3,819,703	840,191	239,541	3,207,972	5,870,040	9,929,284
2018	24,164,857	10,421,322	3,883,174	865,671	214,061	3,280,544	5,500,085	9,597,320
2019	24,219,238	10,802,744	3,811,048	888,360	191,372	3,355,399	5,170,315	9,172,735
2020	23,302,113	10,208,218	3,731,402	911,643	168,088	3,432,607	4,850,155	8,749,645
2021	23,511,739	10,663,218	3,642,337	935,537	144,194	3,635,524	4,490,929	8,277,460
2022–2026	111,005,684	46,621,854	15,869,810	5,058,598	340,061	25,515,286	17,600,075	33,809,946
2027–2031	86,981,924	46,427,051	10,629,304	—	—	21,029,757	8,895,812	19,525,116
2032–2036	57,312,373	27,091,717	6,100,947	—	—	22,370,139	1,749,570	7,850,517
2037–2041	15,110,319	12,007,094	3,103,225	—	—	—	—	3,103,225
2042–2046	9,554,179	8,489,929	1,064,250	—	—	—	—	1,064,250
	<u>\$ 399,686,195</u>	<u>193,279,469</u>	<u>55,655,200</u>	<u>9,500,000</u>	<u>1,297,317</u>	<u>85,827,228</u>	<u>54,126,981</u>	<u>111,079,498</u>
University of Southern Mississippi:								
2017	\$ 14,622,640	6,224,911	7,207,278	627,981	8,427	510,107	43,936	7,259,641
2018	12,164,406	4,440,000	6,997,815	171,440	1,108	512,752	41,291	7,040,214
2019	11,791,382	4,765,000	6,911,384	—	—	92,467	22,531	6,933,915
2020	11,936,509	5,135,000	6,801,509	—	—	—	—	6,801,509
2021	12,138,651	5,465,000	6,673,651	—	—	—	—	6,673,651
2022–2026	57,274,101	27,085,000	30,189,101	—	—	—	—	30,189,101
2027–2031	61,151,851	37,920,000	23,231,851	—	—	—	—	23,231,851
2032–2036	57,053,050	43,765,000	13,288,050	—	—	—	—	13,288,050
2037–2041	27,855,638	22,750,000	5,105,638	—	—	—	—	5,105,638
2042–2046	28,681,408	28,018,158	663,250	—	—	—	—	663,250
	<u>\$ 294,669,636</u>	<u>185,568,069</u>	<u>107,069,527</u>	<u>799,421</u>	<u>9,535</u>	<u>1,115,326</u>	<u>107,758</u>	<u>107,186,820</u>
University of Mississippi Medical Center:								
2017	\$ 18,446,853	5,807,690	12,639,163	—	—	—	—	12,639,163
2018	18,445,665	6,092,690	12,352,975	—	—	—	—	12,352,975
2019	18,443,828	6,372,690	12,071,138	—	—	—	—	12,071,138
2020	18,442,440	6,672,690	11,769,750	—	—	—	—	11,769,750
2021	18,444,253	6,983,607	11,460,646	—	—	—	—	11,460,646
2022–2026	90,502,667	38,808,036	51,694,631	—	—	—	—	51,694,631
2027–2031	88,161,019	47,088,036	41,072,983	—	—	—	—	41,072,983
2032–2036	88,192,187	60,659,226	27,532,961	—	—	—	—	27,532,961
2037–2041	89,149,702	78,326,013	10,823,689	—	—	—	—	10,823,689
	<u>\$ 448,228,614</u>	<u>256,810,678</u>	<u>191,417,936</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>191,417,936</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Debt Service Disclosures (Combined)

June 30, 2016

<u>Fiscal years ended</u>		<u>Bonded</u>	<u>Bonded debt</u>	<u>Notes</u>	<u>Notes payable</u>	<u>Capital</u>	<u>Capital lease</u>	<u>Total</u>
	<u>Total</u>	<u>debt</u>	<u>interest</u>	<u>payable</u>	<u>interest</u>	<u>leases</u>	<u>interest</u>	<u>interest</u>
2017	\$ 97,047,596	39,104,150	44,885,576	1,566,051	262,836	4,553,491	6,675,492	51,823,904
2018	92,122,936	35,607,927	44,015,510	1,137,948	227,079	4,868,970	6,265,502	50,508,091
2019	92,203,486	37,549,349	43,403,229	992,245	200,234	4,180,043	5,878,386	49,481,849
2020	90,720,145	37,809,823	42,409,297	1,018,668	173,810	3,798,655	5,509,892	48,092,999
2021	91,671,370	39,735,740	41,311,311	1,045,797	146,681	4,306,364	5,125,477	46,583,469
2022–2026	440,157,889	202,294,465	183,459,409	5,058,598	340,061	28,634,513	20,370,843	204,170,313
2027–2031	403,629,555	228,314,662	139,991,484	—	—	24,354,757	10,968,652	150,960,136
2032–2036	352,318,293	232,688,485	90,113,695	—	—	26,560,139	2,955,974	93,069,669
2037–2041	233,657,421	193,214,664	37,201,045	—	—	3,033,546	208,166	37,409,211
2042–2046	79,729,412	75,167,605	4,561,807	—	—	—	—	4,561,807
	<u>\$ 1,973,258,103</u>	<u>1,121,486,870</u>	<u>671,352,363</u>	<u>10,819,307</u>	<u>1,350,701</u>	<u>104,290,478</u>	<u>63,958,384</u>	<u>736,661,448</u>

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Bonds and Notes Payable Disclosure

June 30, 2016

	<u>Original issue</u>	<u>Balance outstanding June 30, 2016</u>	<u>Interest rate</u>	<u>Maturity date</u>
Alcorn State University:				
Bonds:				
2009 Series A Student Housing Project	\$ 47,000,000	3,090,000	5.13%–5.25%	09/2039
2016 Series A	43,630,000	48,415,537	2.00%–5.00%	09/2039
	<u>90,630,000</u>	<u>51,505,537</u>		
Delta State University:				
Bonds:				
Student Housing, 2003	2,475,000	1,270,000	3.00%–4.25%	12/2023
Student Housing, 2009	3,135,000	1,245,000	2.50%–3.75%	12/2018
	<u>5,610,000</u>	<u>2,515,000</u>		
Jackson State University:				
Bonds:				
Series 1982 – Dormitory	4,000,000	825,000	1.00%–3.00%	12/2020
Series 2010A-1	31,325,000	25,154,826	3.00%–5.00%	03/2034
Series 2015A	57,595,000	58,358,291	2.00%–5.00%	03/2045
Series 2015B	13,065,000	10,475,000	2.60%	03/2021
	<u>105,985,000</u>	<u>94,813,117</u>		
Notes:				
Housing project	2,222,000	519,886	3.00%	12/2021
Mississippi State University:				
Bonds:				
Dormitory bonds	2,250,000	450,000	3.00%	12/2021
Student apartments	2,038,000	495,000	3.00%	12/2022
EBC-Revenue	31,865,000	3,175,000	3.75%–5.25%	12/2018
EBC-Revenue	58,965,000	—	4.00%–5.00%	06/2016
EBC-Revenue	6,110,000	4,305,000	4.13%–5.00%	08/2028
EBC-Revenue	29,615,000	26,540,000	2.50%–5.25%	08/2039
EBC-Revenue	17,105,000	11,910,000	2.75%–5.00%	08/2024
EBC-Revenue	54,370,000	46,545,000	2.00%–5.00%	12/2042
EBC-Revenue	60,470,000	59,475,000	2.00%–5.00%	08/2043
EBC-Revenue	89,810,000	87,580,000	2.00%–5.00%	08/2043
EBC-Revenue	23,435,000	21,980,000	0.29%–4.81%	08/2043
EBC-Revenue	56,010,000	56,010,000	2.00%–5.00%	08/2045
	<u>432,043,000</u>	<u>318,465,000</u>		
Mississippi Valley State University:				
Bonds:				
EBC – 2007	19,015,000	1,260,000	4.00%	03/2037
EBC – 2015	17,270,000	17,270,000	2.00%	06/2037
	<u>36,285,000</u>	<u>18,530,000</u>		

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Bonds and Notes Payable Disclosure

June 30, 2016

	<u>Original issue</u>	<u>Balance outstanding June 30, 2016</u>	<u>Interest rate</u>	<u>Maturity date</u>
The University of Mississippi:				
Bonds:				
EBC – 2005	\$ 10,965,000	—	3.50%–4.38%	12/2027
EBC – 2006A	17,985,000	1,330,000	5.00%	08/2025
EBC – 2006B-1	17,290,000	9,470,000	3.63%–5.00%	10/2026
EBC – 2008A	29,785,000	2,790,000	4.00%–4.25%	10/2033
EBC – 2009A	19,870,000	15,310,000	3.25%–4.50%	10/2029
EBC – 2009B	24,165,000	11,730,000	3.62%–5.00%	10/2020
EBC – 2009C	14,770,000	12,365,000	3.00%–4.75%	11/2034
EBC – 2011	27,995,000	27,738,323	3.00%–4.75%	10/2031
EBC – 2015A	15,660,000	15,560,000	2.00%–4.00%	11/2040
EBC – 2015B	10,125,000	9,570,000	0.90%–3.75%	11/2030
EBC – 2015C	31,630,000	33,706,400	2.00%–5.00%	09/2046
EBC – 2015D	17,660,000	19,736,399	0.69%–4.45%	09/2036
EBC – 2016A	33,245,000	33,973,347	2.00%–5.00%	10/2034
	<u>271,145,000</u>	<u>193,279,469</u>		
Notes:				
Hancock Bank	9,500,000	9,500,000	2.59%	06/2026
The University of Southern Mississippi:				
Bonds:				
The Village	18,725,000	—	3.63%–5.00%	03/2032
EBC refunding	24,855,000	—	3.63%–5.00%	03/2027
Athletic improvements	27,190,000	580,000	4.00%–5.00%	03/2034
Dormitory construction	49,900,000	2,110,000	2.75%–5.38%	09/2036
SMEBC Series 2013	51,875,000	57,424,635	2.75%–5.38%	09/2043
SMEBC Series 2015A	38,600,000	38,345,000	2.00%–5.00%	03/2034
SMEBC Series 2015B	16,690,000	16,315,000	0.50%–3.25%	03/2034
SMEBC Series 2016	58,870,000	70,793,434	2.00%–5.00%	09/2039
	<u>286,705,000</u>	<u>185,568,069</u>		
Notes:				
Stadium scoreboard	3,160,000	799,421	1.29%	09/2017
Parking garage	15,520,000	—	2.00%–5.13%	09/2039
	<u>18,680,000</u>	<u>799,421</u>		
University Medical Center:				
Bonds:				
Series 1998B	41,075,000	23,670,000	3.88%–5.90%	12/2023
Series 2009	105,605,000	79,544,284	2.00%–5.00%	06/2034
Series 2010A	24,870,000	24,870,000	5.92%–6.69%	06/2032
Series 2010B	20,000,000	20,000,000	6.84%	06/2035
Series 2010C	5,130,000	2,371,333	2.50%–5.00%	06/2020
Series 2012A	51,860,000	51,683,190	4.00%–5.00%	06/2041
Series 2012B	53,390,000	54,671,871	4.07%–4.82%	06/2038
	<u>301,930,000</u>	<u>256,810,678</u>		
Total	\$ <u>1,560,735,000</u>	<u>1,132,306,177</u>		

See accompanying independent auditors' report.

STATE OF MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING

State of Mississippi Component Unit Additional Information

Schedule of Functional Expenses Disclosure

Year ended June 30, 2016

Functional classification	Salaries and wages	Fringe benefits	Travel	Contractual services	Utilities	Scholarships and fellowships	Commodities	Depreciation expense	Other	Total
Instruction	\$ 455,167,283	161,139,275	11,197,362	43,000,448	189,578	3,949,040	16,494,577	—	2,036,294	693,173,857
Research	168,277,896	64,863,693	9,184,678	57,247,377	2,935,871	1,605,999	21,193,867	—	728,027	326,037,408
Public service	86,291,312	32,453,980	7,008,556	30,189,901	868,325	375,728	7,695,763	—	27,164	164,910,729
Academic support	80,256,012	27,399,105	3,171,993	25,980,462	479,745	339,289	13,933,283	—	474,957	152,034,846
Student services	46,563,005	16,180,069	4,562,994	11,657,884	167,905	169,254	6,184,133	—	98,855	85,584,099
Institutional support	140,990,665	49,272,566	2,783,403	117,834,644	241,420	4,545,279	25,503,888	—	3,659,449	344,831,314
Operation of plant	53,324,794	22,411,790	143,034	47,771,352	43,100,144	—	7,812,685	—	2,301,870	176,865,669
Student aid	4,358,548	3,821,773	56,062	547,646	—	170,852,938	169,565	—	—	179,806,532
Auxiliary enterprises	75,475,935	23,576,908	16,238,277	82,493,794	15,904,514	20,708,055	19,537,315	5,487	67,298	254,007,583
Depreciation	—	—	—	—	—	—	—	147,751,078	—	147,751,078
Hospital	469,158,933	153,570,336	3,066,441	95,259,546	968,448	—	259,046,269	—	—	981,069,973
Loan fund expenses	—	—	—	—	—	—	—	—	512,543	512,543
Interest	—	—	—	—	—	—	—	—	38,740,301	38,740,301
Inter-campus eliminations	—	—	—	(52,699,906)	—	(27,867,856)	—	—	—	(80,567,762)
Total operating expenses	\$ <u>1,579,864,383</u>	<u>554,689,495</u>	<u>57,412,800</u>	<u>459,283,148</u>	<u>64,855,950</u>	<u>174,677,726</u>	<u>377,571,345</u>	<u>147,756,565</u>	<u>48,646,758</u>	<u>3,464,758,170</u>

See accompanying independent auditors' report.