6-30-2017

Consolidated Financial Statements (FY2017)

Mississippi State University Foundation

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Mississippi State University Foundation, Inc. (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mississippi State University Foundation, Inc. as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Jackson, Mississippi
November 1, 2017

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2017 and 2016

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

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2017

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

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2016

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

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

		Unrestricted net assets attributable to the Foundation	Unrestricted net assets attributable to noncontrolling interests	Total unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Net assets as of June 30, 2015	$	40,627,525	59,352,202	99,979,727	99,907,112	315,364,556	515,251,395
Change in net assets from statement of activities		(3,106,755)	(1,965,647)	(5,072,402)	(26,702,537)	18,919,429	(12,855,510)
Change in net assets related to merger with MSU Alumni Foundation (note 1(a))		—	(14,009,225)	(14,009,225)	8,176,682	5,832,543	—
Proceeds from noncontrolling interests		—	100,000	100,000	—	—	100,000
Payments to noncontrolling interests		—	(1,057,613)	(1,057,613)	—	—	(1,057,613)
Change in total net assets		(3,106,755)	(16,932,485)	(20,039,240)	(18,525,855)	24,751,972	(13,813,123)
Net assets as of June 30, 2016		37,520,770	42,419,717	79,940,487	81,381,257	340,116,528	501,438,272
Change in net assets from statement of activities		4,144,737	3,572,985	7,717,722	21,651,614	13,918,853	43,288,189
Payments to noncontrolling interests		—	(1,705,860)	(1,705,860)	—	—	(1,705,860)
Change in total net assets		4,144,737	1,867,125	6,011,862	21,651,614	13,918,853	41,582,329
Net assets as of June 30, 2017	$	41,665,507	44,286,842	85,952,349	103,032,871	354,035,381	543,020,601

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

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

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

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

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

(b) Basis of Accounting

The accompanying consolidated financial statements include the Foundation and the Mississippi State Investment Pool in which the Foundation has a controlling financial interest (note 1(g)). These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three net asset classes – permanently restricted, temporarily restricted or unrestricted as follows:

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

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

Unrestricted net assets – net assets that represent resources generated from operations or that are not subject to donor-imposed stipulations. Unrestricted net assets include contributions designated to a particular college or unit for which the use or purpose is unrestricted.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, and grants are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of intellectual property are based on its estimated fair value, considering the characteristics specific to the assets and estimated usage during the term of the agreement. Contributed goods and services are recorded as revenues and expenses in the consolidated statements of activities at estimated fair value.

Income from and realized and unrealized gains and losses on investments of permanently restricted net assets are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that gains be added to the principal of a permanent endowment fund; and
- as increases or decreases in temporarily restricted net assets in all other cases and released from restriction when appropriated for expenditure, except as described in note 7(d) for endowment funds whereby the fair value of the fund is less than the historical cost value.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

The Foundation's investments are held in various types of investment securities and in various companies across a variety of markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

(d) Restricted Cash

Funds held for an unaffiliated organization that retains control over the expenditures of such funds are classified as restricted cash in the consolidated statements of financial position with a corresponding amount in agency payable.

(e) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or at fair value on the date of gift, if donated. Depreciation of buildings and equipment, including assets acquired under capital leases, is provided on the straight-line method over the shorter of the estimated useful life of the assets or the term of the lease. The estimated useful lives for buildings are 30-40 years and furniture, fixtures, and equipment are 5-10 years.

The Foundation assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset.

(f) Fair Value Measurement

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

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

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

(g) Investments

(i) Overall Investment Objective

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund donor-designated directives and maintain each fund’s inflation-adjusted impact. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Foundation's Investment Committee, which oversees its investment program in accordance with an established investment policy.

(ii) Mississippi State Investment Pool

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

(iii) Allocation of Investment Strategies

The Foundation invests in four broad asset classes: global fixed income, global equities, real assets, and diversifying strategies. Global fixed income investments consist of both interest rate sensitive and credit sensitive publicly traded credit securities. Global equities consist of domestic and international equity securities, as well as a number of private equity and hedged equity strategies. The private equity funds employ buyout and venture capital strategies and focus on investments in turn-around and start-up situations. The hedged equity strategies include a long-short equity fund of funds. Real assets include investments in a timber management organization, mid-stream MLPs, and upstream energy investments. Diversifying strategies include a variety of nontraditional investments designed specifically to dampen portfolio volatility. These strategies may include investments in stock, bonds, put or call options, swaps, currency hedges, and other instruments. Private equity, real asset strategies, and diversifying strategies often require the estimation of fair values by the fund managers in the absence of readily determinable fair market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Foundation's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets. Short-term investments consists of cash held by the investment pool, held primarily for capital calls and reinvestments.

(Continued)

(iv) Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, then the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with the U.S. Securities and Exchange Commission are based on share prices reported by the funds as of the last business day of the fiscal year. Fixed income securities are based on quoted market prices or other observable inputs such as quoted prices for similar assets or inputs corroborated by observable market data. The Foundation's interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017 and 2016, the Foundation had no plans or intentions to sell investments at amounts different from NAV. Properties held for investment are reported at estimated fair value based on periodic appraisals conducted by third-party appraisers who utilize the cost, sales comparison, and income capitalization approaches to estimate the fair value of the investments. The Foundation considers recent comparables, among other things, to adjust for any changes in fair value between the most recent appraisal date and year-end.

(h) Pledges

All unconditional promises to give are recorded at their estimated realizable value on a discounted basis using rates commensurate with the risks involved. Allowance is made for uncollectible pledges based upon management's judgment and analysis of specific accounts, past collection experience and other relevant factors.

(i) Split Interest Agreements

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of gift annuities, charitable lead trusts, charitable remainder trusts, or perpetual trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (at June 30, 2017 and 2016 rates ranged from approximately 1% to 5%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. The Foundation's estimated remainder interests in split interest agreements are classified as temporarily restricted or permanently restricted net assets based upon donor designations.

Externally managed trusts consist of irrevocable charitable remainder trusts and perpetual trusts whereby the Foundation is the beneficiary, not the trustee. The Foundation records these trusts at the present value of the estimated future cash receipts from the assets of the trust.

Present value of amounts due from externally managed trusts and liabilities under split interest agreements are classified as Level 3 fair value measurements.

Contribution revenue attributable to split interest agreements for the years ended June 30, 2017 and 2016 was $2,416,888 and $4,847,904, respectively.

(j) Income Taxes

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been made. As of June 30, 2017 and 2016, there were no material uncertain tax positions.

(k) Liquidity

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

(l) Recent Accounting Pronouncements

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

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* in August 2016. ASU 2016-14 changes how not-for-profit entities report net asset classes and expenses and disclose-liquidity and availability of financial assets in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. The Foundation will implement the provisions of ASU 2016-14 as of July 1, 2018.

(m) Subsequent Events

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

(2) Investments

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

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

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

The Foundation has entered into various split interest agreements, including charitable remainder unitrusts and charitable gift annuities, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2017 and 2016 with an approximate fair value of $6,291,700 and $5,773,000, respectively.

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

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

(3) Pledges Receivable

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

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

(4) Land, Buildings, and Equipment

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

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

(Continued)

(5) Net Assets

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

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

(6) Fair Value Measurement

The following tables summarize the Foundation's financial instruments by major category in the fair value hierarchy as of June 30, 2017 and 2016:

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

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

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

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

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

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

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

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

(a) Pledges Receivable

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

(b) Other Receivables and Payables

The carrying amounts of receivable from the MSU Alumni Association, note receivable, other receivables, accounts payable and accrued liabilities, and payable to Mississippi State University approximate fair value because of the short-term maturity of these instruments.

(c) Liabilities under Split Interest Agreements

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

(7) Endowment

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

(a) Interpretations of Relevant Law

The Board has interpreted the State of Mississippi Code of 1972 §79-11-701 through §79-11-719 cited as the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with UPMIFA, the Board may expend so much of an endowment fund's net appreciation as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the

(Continued)

goal of conserving the long-term purchasing power of the endowment fund. The Board considered the following factors in making its determination:

1) The purpose of the Foundation

2) The intent of the donor of the endowment fund

3) The terms of the applicable instrument

4) The long-term and short-term needs of the Foundation and the University in carrying out their purposes

5) General economic conditions

6) The possible effect of inflation or deflation

7) The other resources of the Foundation and the University

8) Perpetuation of the endowment

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets.

(b) Spending Policy

The Foundation's spending policy is designed to provide for positive growth in the market value of its endowment, net of distributions, over an extended period of time. In establishing this policy, the Board considered the long-term expected return of the endowment investment pool and the goal of maintaining the purchasing power of the endowment asset. Over the long-term, the current spending policy is designed to return a net positive gain in market value (growth) after spendable transfers.

The annual rate for spendable transfers, distributed annually (semi-annually for 2015), is 4% of the investment pool's average unit value over the 36-month period ending September 30 of the previous year. In addition, each endowed fund is assessed an annual 1.50% administrative fee. This fee covers administrative costs related to the operations of the MSIP, and is a portion of the funding mechanism for the operations of the Foundation.

(c) Investment Policy

The Foundation's investment objectives are to provide an annualized real (adjusted for inflation) rate of return of 5.50% or more in order to preserve, or increase, the purchasing power of endowment capital, while generating an income stream to support activities of the funds held for the colleges and units of the University. This policy is designed to tolerate volatility in short and intermediate-term performance. The endowment assets are invested as a part of the investment pool, as discussed in note 1(g).

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

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

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

	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
Total funds	$ 17,180,348	30,930,493	280,205,092	328,315,933

(Continued)

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

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$ 17,180,348	30,930,493	280,205,092	328,315,933
Investment return:				
Investment income	939,983	3,127,564	—	4,067,547
Net appreciation depreciation (realized and unrealized)	1,253,582	23,630,858	(94,011)	24,790,429
Total investment return	2,193,565	26,758,422	(94,011)	28,857,976
Contributions	—	—	8,015,607	8,015,607
Appropriation of endowment assets for expenditure	(793,821)	(15,216,630)	—	(16,010,451)
Change in split interest agreements	—	—	4,659,008	4,659,008
Other	(26,780)	388,519	—	361,739
Endowment net assets, end of year	$ 18,553,312	42,860,804	292,785,696	354,199,812

		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 (depreciation) (realized and unrealized)		(4,046,839)	(15,668,374)	1,412,803	(18,302,410)
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)
Change in split interest agreements		148,694	202,004	1,115,889	1,466,587
Other		—	8,176,682	5,832,543	14,009,225
Endowment net assets, end of year	$	17,180,348	30,930,493	280,205,092	328,315,933

(d) Funds with Deficiencies

As a result of market declines for certain recently established endowments, the fair value of certain donor-restricted endowments was less than the historical cost value (original gift/book value) of such funds (underwater) by $828,814 and $2,568,829 as of June 30, 2017 and 2016, respectively.

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