

DELTA STATE UNIVERSITY



Financial Report
July 1, 2015 - June 30, 2016



Delta State University

Office of the President

January 10, 2017

Members of the Board of Trustees
Mississippi Institutions of Higher Learning
3825 Ridgewood Road
Jackson, MS 39211-6453

Ladies and Gentlemen:

Enclosed is the annual financial report of Delta State University for the fiscal period July 1, 2015 through June 30, 2016.

We will gladly provide any additional information, as needed.

Very best regards,

A handwritten signature in black ink, reading "W. N. LaForge". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

William N. LaForge
President

January 4, 2017

William N. LaForge, University President
Delta State University
Box A-1
Cleveland, Mississippi 38733

Dear President LaForge:

I am pleased to present the annual financial report of Delta State University for the fiscal year ended June 30, 2016. The financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles.

The financial statements and accompanying notes will be included with the Mississippi Institutions of Higher Learning as a component unit of the state government. The Consolidated Annual Financial Report will be audited by the Mississippi State Department of Audit. The audit for the year ended June 30, 2016, has not been completed at this time.

If you need additional information, please do not hesitate to contact me.

Sincerely,



James R. Rutledge
Vice President
Finance & Administration
Chief Financial Officer

JR/bl

Enclosure

DELTA STATE UNIVERSITY
FINANCIAL STATEMENTS

June 30, 2016

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DELTA STATE UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Delta State University herein presents its financial statements for fiscal year 2016, with fiscal year 2015 prior year data presented for comparative purposes. There are three financial statements: 1) the Statement of Net Position; 2) the Statement of Revenues, Expenses and Changes in Net Position and; 3) the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities. GASB requires financial statements be presented on a consolidated basis, focusing on the university as a whole. All of the following dollar amounts are presented in thousands of dollars. The purpose of this discussion and analysis is to provide an overview of university's financial condition.

Statement of Net Position

The Statement of Net Position presents the Assets (current and noncurrent), deferred outflows, Liabilities (current and noncurrent), deferred inflows, and Net Position (assets and deferred outflows minus liabilities and deferred inflows) as of the end of the fiscal year. The purpose of the Statement of Net Position is to provide the readers of the financial statements with an understanding of Delta State University's finances as of June 30, 2016.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, investors, and lending institutions.

The Statement of Net Position provides a picture of the net assets available for expenditure by the university. The difference between total assets and total liabilities, or net assets, is one indicator of the current financial condition of the university, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

Net Position is divided into three major categories. The first category, invested in capital assets, net of debt, provides the university's equity in property, plant, and equipment. The second asset category is restricted net assets, nonexpendable and expendable. Nonexpendable restricted resources are only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose.

A summarized comparison of the university's assets, liabilities, and net assets at June 30, 2015 and 2016 is as follows:

| Statement of Net Position (thousands of dollars) | | |
|---|-----------------------------|-----------------------------|
| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
| Assets and Deferred Outflows | | |
| Current assets | \$ 11,194 | \$ 9,287 |
| Capital assets, net | 118,290 | 119,114 |
| Other assets | 7,217 | |
| Deferred Outflows | <u>7,371</u> | <u>3,311</u> |
| Total Assets and Deferred Outflows | <u>144,072</u> | <u>140,882</u> |
| Liabilities and Deferred Inflows | | |
| Current liabilities | 7,539 | 5,200 |
| Noncurrent liabilities | 60,891 | 54,992 |
| Deferred Inflows | <u>1,565</u> | <u>4,861</u> |
| Total Liabilities and Deferred Inflows | <u>69,995</u> | <u>65,053</u> |
| Net Position | | |
| Invested in capital assets, net of debt | 99,609 | 99,346 |
| Restricted – expendable | 1,675 | 2,504 |
| Unrestricted | <u>(27,207)</u> | <u>(26,021)</u> |
| Total Net Position | <u>\$ 74,077</u> | <u>\$ 75,829</u> |

A review of the university's Statement of Net Position at June 30, 2016 and 2015 shows that the university is financially stable. Total net assets increased by \$3,190 due to primarily an increase in unrestricted net assets.

Current assets consist of cash and short term investments, accounts receivable, student notes receivable, inventories, and pre-paid expenses. Total current assets Increased by \$1,907. This Increase was the result of cash equivalents being moved from long term investments. Accounts receivable as a percentage of current assets decreased from 72% to 49% because of strong collection procedures being implemented. The university continues to focus on the management and collection of student receivables.

Current liabilities consist of accounts payable, the current portion of accrued leave liabilities, the current portion of long-term liabilities, and deferred revenue. Total current liabilities increased by \$2,339 as a result of increase of deferred revenue.

Noncurrent assets are comprised of restricted cash and cash equivalents, endowment investments, long-term investments, student notes receivable, deferred cash inflows and capital assets, net of accumulated depreciation. There was a \$2,776 decrease in noncurrent assets during FY2016, due largely to an decrease in Capital Assets and long term investments. Additional information regarding the university's Capital Assets may be found in Note 6 in the Notes to the Financial Statements.

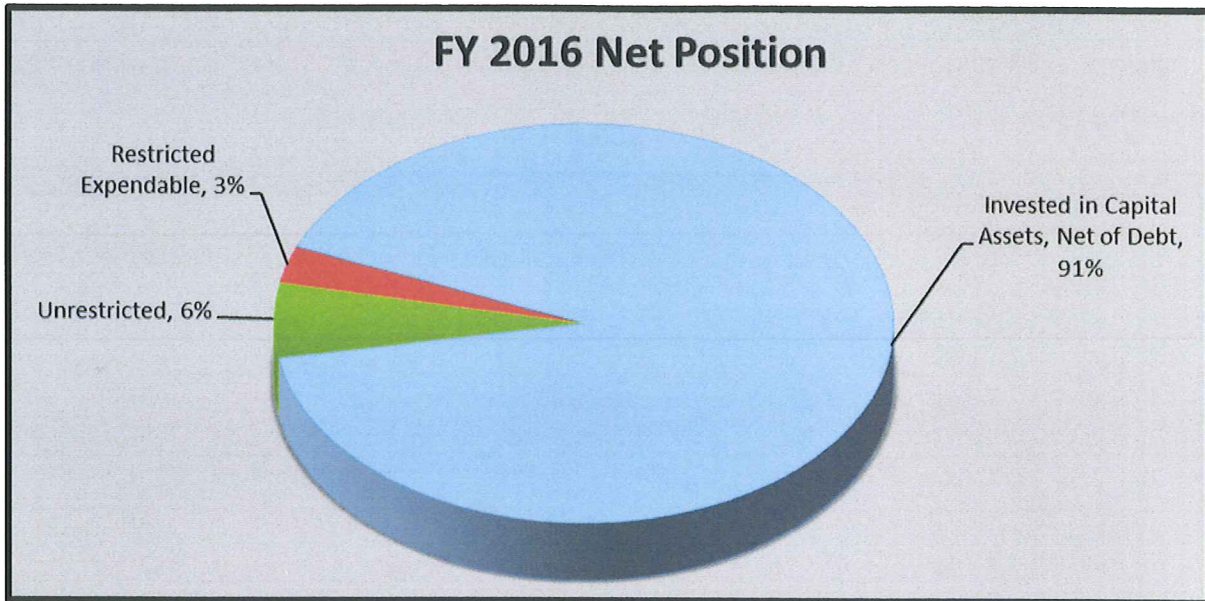
Noncurrent liabilities are primarily made up of accrued leave and long-term liabilities. Accrued leave decreased by \$3,821 the result of an decrease in the net pension liability and major medical leave balances of university employees. Long-term liabilities Increased by \$38,212. This substantial increase was the result of increase of Net Pension Liability. Detailed information regarding long-term liabilities can be found in Note 7 in the Notes to the Financial Statements.

Net Position represents the residual interest in the university's assets plus deferred outflows and deferred inflows after liabilities are deducted. Net Position is presented in three categories: capital assets, restricted and unrestricted assets.

Net Position invested in capital assets represent the university's capital assets net of accumulated depreciation and outstanding principal balance of debt attributable to the acquisition, construction, or improvement of those assets. Net Position invested in capital assets Increased in FY2016 by \$263

Restricted expendable Net Position is subject to externally imposed restrictions governing their use. This category includes \$1.4 million for capital projects; \$291 for loans.

Unrestricted Net Position is not subject to externally imposed restrictions. The university has designated the \$(27) million unrestricted balance to inventories \$214, encumbrances \$221, and equipment replacement \$500 with the remaining funds \$(28) million for undesignated purposes.



Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of this statement is to present the revenues received by the university, both operating and nonoperating, and the expenses paid by the university, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the university without the Legislature directly receiving goods and services for those revenues.

A summarized comparison of the university's revenues, expenses, and changes in net assets for the years ended June 30, 2016 and 2015 is as follows:

Statement of Revenues, Expenses and Changes in Net Position
(thousands of dollars)

| | For the Year Ended | |
|---|-----------------------------|-----------------------------|
| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
| Operating revenues | \$35,601 | \$34,884 |
| Operating expenses | <u>66,615</u> | <u>65,481</u> |
| Operating loss | (31,014) | (30,638) |
| Nonoperating revenues and expenses | <u>20,090</u> | <u>29,551</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains or Losses | (10,924) | (1,087) |
| Increase (Decrease) in Net Assets | (1,850) | 4,526 |
| Net Position at Beginning of Year, Restated | 75,829 | 106,841 |
| Cumulative Effects of Change in Accounting Principle | 98 | (35,516) |
| Prior Period Adj | 0 | (22) |
| Net Position at End of Year | \$ <u>74,077</u> | \$ <u>75,829</u> |

The Statement of Revenues, Expenses and Changes in Net Position reflects a \$1.7 million decrease in the net assets at the end of the year. Some other highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets follow.

Federal grants and contracts (8% of total operating revenues) increased by \$233.

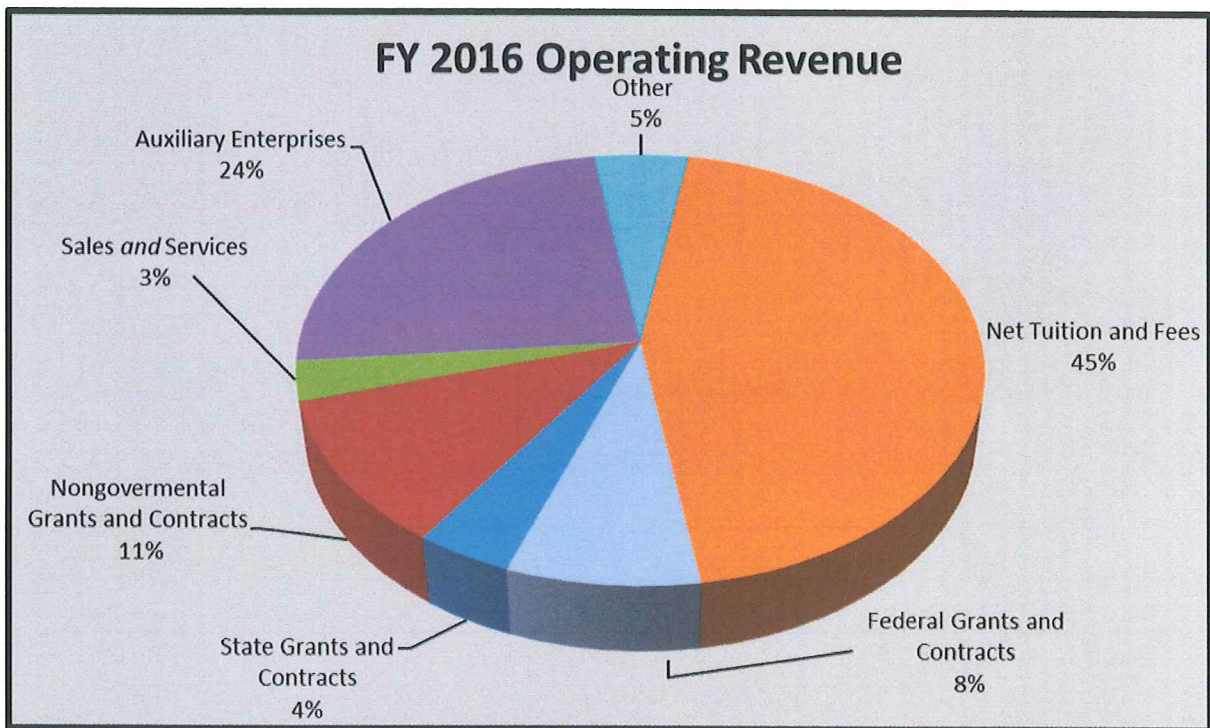
State grants and contracts (4% of total operating revenues) increased by \$492.

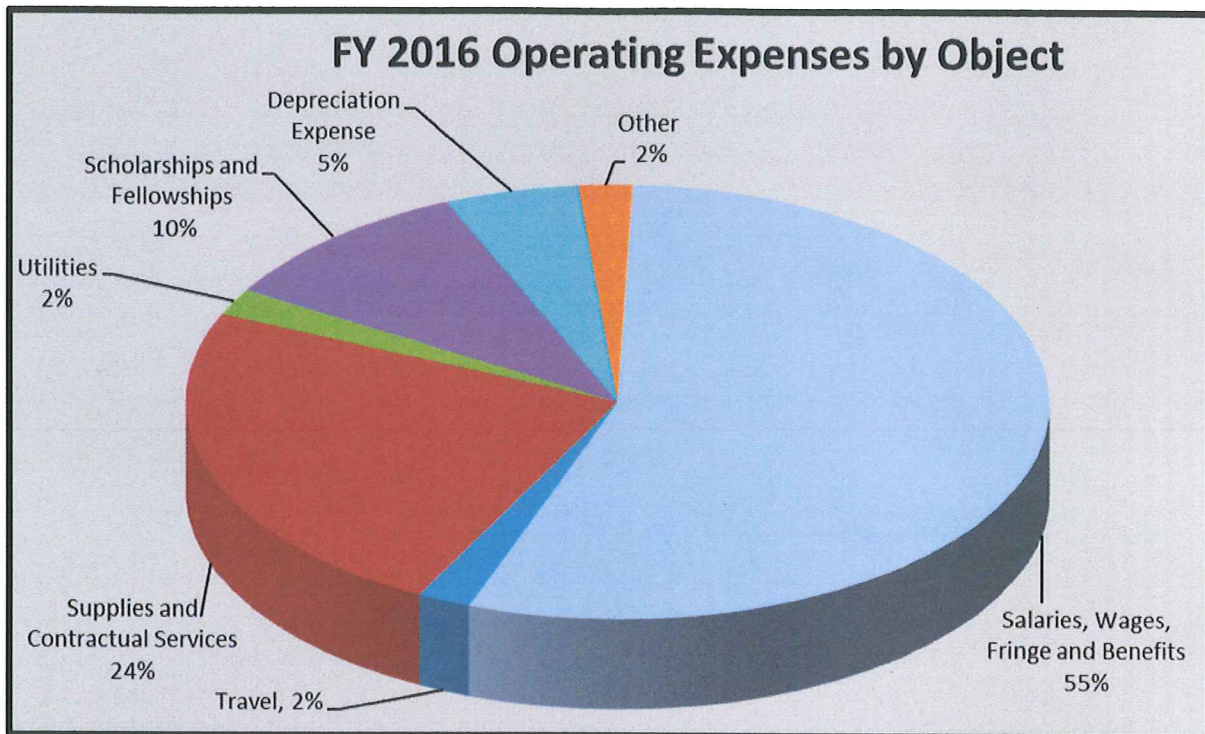
Nongovernmental grants and contracts (11% of total operating revenues) decreased by \$51.

Revenue from tuition and fees, net of scholarship allowances, decreased \$36 during the year. Net tuition represents 45% of total operating revenues. Full-time tuition was \$3,156 per semester reflecting a 5% increase over the previous year. The decrease in net tuition was reflective of the \$142 increase in Scholarship Allowances.

Operating expenses are comprised of salaries, wages, and fringe benefits (55%), travel (2%), supplies and contractual services (24%), scholarships and fellowships (10%), and depreciation (5%). Utility expenditures (4%), Increased by \$1,776, primarily due to Increase in Scholarships and Utilities.

State appropriations restricted for capital purposes decreased by \$3.4 million from the previous year. Funding for new construction and renovation of academic buildings is appropriated by the Legislature through the state Office of Building, Grounds, and Real Property Management.





Statement of Cash Flows

The final statement presented is the Statement of Cash Flows, which provides additional detailed information by reporting the major sources and uses of cash during the year. The Statement of Cash Flows also helps users assess the university's ability to generate future net cash flows, the ability to meet obligations as they come due, and the need for external financing. The statement is divided into five sections. The first section deals with operating cash flows and the net cash used in the university's operating activities. The second section presents cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used in the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

A comparative summary of the Statement of Cash Flows for the years ended June 30, 2015 and 2016 is shown below.

Statement of Cash Flows
(thousands of dollars)

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|---------------------------------|----------------------|----------------------|
| Cash provided (used) by: | | |
| Operating activities | \$(27,388) | \$(28,104) |
| Noncapital financing activities | 31,978 | 29,092 |
| Capital financing activities | (3,830) | (645) |
| Investing activities | <u>(1,701)</u> | <u>(1,701)</u> |
| Net Change in cash | 3,066 | (1,356) |
| Cash, beginning of year | <u>1,287</u> | <u>2,646</u> |
| Cash, end of year | <u>\$ 4,353</u> | <u>\$ 1,287</u> |

The university's cash and cash equivalents increased \$3,065. Cash received from operations primarily consists of student tuition and fees and sponsored grants and contracts. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include \$22,736 in State of Mississippi appropriations.

Capital Asset and Debt Administration

During fiscal year 2016, Delta State University did not issued additional long-term debt. For additional information concerning capital assets and debt administration, see Notes 7 and 18 in the Notes to the Financial Statements.

Economic Outlook

The economic position of Delta State University is closely tied to that of the State of Mississippi. State appropriations, the largest single source of funding, comprise approximately 35% of total revenues. State appropriations Increased by \$136. State appropriations are expected to remain essentially the same in FY2016. The university's governing board maintained tuition at \$0 increase in 2016 & 2015. Given these challenges and uncertainties, the university will continue its cost-containment and efficiency efforts to preserve the ability to deliver mission-critical activities of instruction and public service in the Delta region. Delta State University will maintain a close watch over its resources, remaining prepared to respond to internal and external financial challenges as they arise.

Jamie Rutledge, CPA
Vice President, Finance & Administration
& Chief Financial Officer

DELTA STATE UNIVERSITY

STATEMENT OF NET POSITION

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|------------------------------|------------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 4,978,332 | \$ 1,770,154 |
| Short Term Investments | 137,462 | 137,461 |
| Accounts Receivables, Net | 5,456,550 | 6,751,809 |
| Student Notes Receivables, Net | 333,632 | 338,823 |
| Inventories | 213,550 | 215,595 |
| Prepaid Expenses | 74,973 | 73,544 |
| Other Current Assets | | |
| Total Current assets | <u>11,194,499</u> | <u>9,287,386</u> |
| Non-Current Assets: | | |
| Restricted Cash and Cash Equivalents | (625,244) | (482,457) |
| Endowment Investments | - | - |
| Other Long Term Investments | 6,658,976 | 8,296,192 |
| Student Notes Receivable, Net | 1,182,878 | 1,355,291 |
| Capital Assets, Net | 118,290,467 | 119,114,705 |
| Other Noncurrent Assets | | |
| Total Non-Current assets | <u>125,507,077</u> | <u>128,283,732</u> |
| Total Assets | <u>\$ 136,701,576</u> | <u>\$ 137,571,118</u> |
| Deferred Outflows of Resources | | |
| Difference between expected and actual experience | \$ 984,132 | \$ 523,174 |
| Changes in proportionate share | \$ 123,279 | \$ 123,279 |
| Contributions subsequent to the measurement date | \$ 2,629,908 | \$ 2,665,291 |
| Changes in assumptions | \$ 3,633,785 | \$ - |
| Total deferred outflows of resources | \$ 7,371,104 | \$ 3,311,744 |
| Total assets and deferred outflows of resources | <u>\$ 144,072,680</u> | <u>\$ 140,882,862</u> |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | \$ 3,242,587 | \$ 2,798,413 |
| Unearned Revenues | 885,585 | 574,868 |
| Accrued Leave Liabilities - Current Portion | 238,236 | 204,703 |
| Long Term Liabilities - Current Portion | 1,245,233 | 1,207,021 |
| Other Current Liabilities | 1,927,036 | 415,242 |
| Total Current liabilities | <u>7,538,677</u> | <u>5,200,247</u> |

DELTA STATE UNIVERSITY

STATEMENT OF NET POSITION

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|
| Non-Current Liabilities: | | |
| Net Pension Liability | 42,181,402 | 33,537,396 |
| Deposits Refundable | 128,195 | 133,157 |
| Accrued Leave Liabilities | 1,246,536 | 1,355,145 |
| Long Term Liabilities | 17,335,575 | 18,582,264 |
| Other Non-Current Liabilities | - | 1,383,405 |
| Total Non-Current liabilities | <u>60,891,708</u> | <u>54,991,367</u> |
| Total Liabilities | <u>\$ 68,430,385</u> | <u>\$ 60,191,613</u> |
| Deferred Inflows of Resources | | |
| Difference between projected and actual earnings on pension plan | <u>\$ 1,565,206</u> | <u>\$ 4,861,493</u> |
| Total liabilities and deferred inflows of resources | <u>\$ 69,995,591</u> | <u>\$ 65,053,106</u> |
| Net Position: | | |
| Net Invested in Capital Assets | \$ 99,609,604 | \$ 99,346,440 |
| Restricted for: | | |
| Nonexpendable - | | |
| Scholarships and Fellowships | | |
| Research | | |
| Other Purposes | | |
| Expendable - | | |
| Scholarships and Fellowships | | |
| Research | | |
| Capital Projects | | |
| Debt Service | 1,384,151 | 2,226,563 |
| Loans | - | - |
| Other Purposes | 291,146 | 278,624 |
| Unrestricted | (27,207,812) | (26,021,871) |
| Total Net Position | <u>\$ 74,077,089</u> | <u>\$ 75,829,756</u> |

DELTA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|------------------------------|------------------------------|
| Operating Revenues: | | |
| Tuition and Fees | \$21,140,848 | \$21,093,800 |
| Less: Scholarship Allowances | (\$4,820,284) | (\$4,678,169) |
| Less: Bad Debt Expenses | (\$61,064) | (\$119,986) |
| Net Tuition and Fees | <u>\$16,259,499</u> | <u>\$16,295,645</u> |
| Federal Appropriations | | |
| Federal Grants and Contracts | \$3,037,909 | \$2,628,346 |
| State Grants and Contracts | \$1,464,740 | \$1,641,551 |
| Nongovernmental Grants and Contracts | \$4,034,356 | \$3,541,915 |
| Sales and Services of Educational Departments | \$1,327,213 | \$1,378,541 |
| Auxiliary Enterprises: | | |
| Student Housing | \$3,706,949 | \$4,217,368 |
| Food Services | \$2,966,428 | \$3,159,319 |
| Bookstore | \$107,667 | \$102,533 |
| Athletics | | |
| Other Auxiliary revenues | \$1,785,193 | \$1,778,351 |
| Less: Auxiliary Enterprise Scholarship Allowances | \$0 | (\$649,746) |
| Interest Earned on Loans to Students | \$23,565 | \$16,205 |
| Other Operating Revenues, Net | <u>\$888,082</u> | <u>\$733,538</u> |
| Total Operating Revenues | <u>\$35,601,601</u> | <u>\$34,843,567</u> |
| Operating Expenses: | | |
| Salaries and Wages | \$27,351,881 | \$26,689,697 |
| Fringe Benefits | \$9,854,558 | \$8,257,660 |
| Travel | \$1,465,357 | \$1,402,404 |
| Contractual Services | \$11,933,752 | \$12,866,482 |
| Utilities | \$1,630,696 | \$2,484,966 |
| Scholarships and Fellowships | \$6,337,547 | \$5,754,719 |
| Commodities | \$4,171,584 | \$4,039,385 |
| Depreciation/Amortization Expense | \$3,863,405 | \$3,929,852 |
| Other Operating Expense | <u>\$6,894</u> | <u>\$56,012</u> |
| Total Operating Expenses | <u>\$66,615,674</u> | <u>\$65,481,177</u> |
| Operating Income (Loss) | <u>(\$31,014,072)</u> | <u>(\$30,637,610)</u> |
| Nonoperating Revenues (Expenses): | | |
| State Appropriations | \$22,735,982 | \$22,596,413 |
| Gifts and Grants | \$6,083,852 | \$6,400,832 |
| Investment Income (Loss) | \$232,354 | \$255,492 |
| Other Nonoperating Revenues | \$2,767,084 | \$298,273 |
| Other Nonoperating Expenses | <u>(\$11,728,907)</u> | <u>\$0</u> |
| Total Net Nonoperating Revenues (Expenses) | <u>\$20,090,365</u> | <u>\$29,551,010</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains and Losses | <u>(\$10,923,708)</u> | <u>(\$1,086,600)</u> |
| Capital Grants and Gifts | | |
| State Appropriations Restricted for Capital Purposes | \$9,048,223 | \$5,587,584 |
| Additions to Permanent Endowments | | |
| Other Additions | \$25,000 | \$25,000 |
| Other Deletions | <u>\$0</u> | <u>\$0</u> |
| Net Increase in Net Assets | <u>(\$1,850,484)</u> | <u>\$4,525,983</u> |
| Net Position | | |
| Net Position - Beginning of Year, as Originally Reported | \$75,829,756 | \$106,819,876 |
| Cumulative Effects of Changes in Accounting Principle | | |
| Prior Period Adjustments | \$97,817 | (\$35,516,103) |
| Net Position - Beginning of Year, as Restated | <u>\$75,927,573</u> | <u>\$71,303,773</u> |
| Net Position - End of Year | <u>\$74,077,089</u> | <u>\$75,829,756</u> |

DELTA STATE UNIVERSITY STATEMENT OF CASH FLOWS

| | <u>2016</u> |
|--|------------------------------|
| Cash Flows from Operating Activities: | |
| Tuition and Fees | \$16,401,625 |
| Grants and Contracts | \$8,666,184 |
| Sales and Services of Educational Departments | \$1,327,213 |
| Payments to Suppliers | (\$17,089,776) |
| Payments to Employees for Salaries and Benefits | (\$39,234,395) |
| Payments for Utilities | (\$1,630,696) |
| Payments for Scholarships and Fellowships | (\$6,337,547) |
| Loans Issued to Students and Employees | (\$35,122) |
| Collection of Loans to Students and Employees | \$285,032 |
| Auxiliary Enterprise Charges: | |
| Student Housing | \$3,706,949 |
| Food Services | \$2,968,148 |
| Bookstore | \$107,667 |
| Other Auxiliary Enterprises | \$1,785,193 |
| Other Receipts | \$1,699,557 |
| Other Payments | (\$8,254) |
| Net Cash Provided (Used) by Operating Activities | <u>(\$27,388,221)</u> |
| Cash Flows from NonCapital Financing Activities: | |
| State Appropriations | \$22,860,055 |
| Gifts and Grants for Other Than Capital Purposes: | \$69,808 |
| Private Gifts for Endowment Purposes | \$0 |
| Federal Loan Program Receipts | \$20,825,936 |
| Federal Loan Program Disbursements | (\$20,825,936) |
| Other Sources | \$9,048,223 |
| Other Uses | \$0 |
| Net Cash Provided by Noncapital Financing Activities | <u>\$31,978,087</u> |
| Cash Flows from Capital Financing Activities: | |
| Proceeds from Capital Debt | \$0 |
| Cash Paid for Capital Assets | (\$431,096) |
| Capital Appropriations Received | \$9,048,223 |
| Capital Grants and Contracts Received | \$0 |
| Proceeds from Sales of Capital Assets | |
| Principal Paid on Capital Debt and Leases | (\$814,839) |
| Interest Paid on Capital Debt and Leases | (\$2,726,629) |
| Other Source | \$142,141 |
| Other Uses | (\$9,048,223) |
| Net Cash Used by Capital and Related Financing Activities | <u>(\$3,830,422)</u> |
| Cash Flows from Investing Activities: | |
| Proceeds from Sales and Maturities of Investments | \$6,000,000 |
| Interest Received on Investments | \$305,948 |
| Purchases of Investments | (\$4,000,000) |
| Net Cash Provided by Investing Activities | <u>\$2,305,948</u> |

DELTA STATE UNIVERSITY STATEMENT OF CASH FLOWS

| | <u>2016</u> |
|---|------------------------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | \$3,065,391 |
| Cash and Cash Equivalents - Beginning of the Year | \$1,287,697 |
| Cash and Cash Equivalents - End of the Year | <u>\$4,353,088</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating Income (Loss) | (\$31,014,072) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation/Amortization Expense | \$3,863,405 |
| Other | \$0 |
| Changes in Assets and Liabilities: | |
| (Increase) Decrease in Assets: | |
| Receivables, Net | \$1,295,884 |
| Inventories | \$2,045 |
| Prepaid Expenses | \$21,019 |
| Other Assets | \$5,191 |
| Increase (Decrease) in Liabilities: | |
| Accounts Payables and Accrued Liabilities | \$388,345 |
| Deferred Revenues | \$310,714 |
| Deposits Refundable | \$0 |
| Accrued Leave Liability | (\$350,676) |
| Loans to Students and Employees | \$0 |
| Other Liabilities | (\$1,910,077) |
| Total Adjustments: | <u>\$3,625,851</u> |
| Net Cash Provided (Used) by Operating Activities: | <u>(\$27,388,221)</u> |

ENTER NON-CASH TRANSACTIONS BELOW: (See GASB #9, Paragraph 37)

| | |
|--|------------|
| 1.) State Appropriations Restricted for Capital Purposes | 9,048,223 |
| 2.) Unrealized Gain/(Loss) on Fair Value of Investments | 0 |
| 4.) Bureau of Buildings and Grounds Construction-in-Progress | 24,683,007 |
| 6.) New Capital Leases | |
| 8.) Provision for Bad Debts | 61,064 |
| 9.) Capital Assets Acquired from Capital Leases | |

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies

- A. **Nature of Operations** – Delta State University is a regional university serving the state, nation and international communities by providing academic instruction, research and service programs.
- B. **Reporting Entity** - Delta State University was created as Delta State Teachers College by Senate Bill Number 263, Chapter 284, signed on April 9, 1924. On March 15, 1974, the institution was officially designated Delta State University to reflect its growth and expanded scope. Delta State, located in Cleveland, Mississippi, serves as an educational and cultural center of the Mississippi Delta. The University offers undergraduate, graduate, and continuing education programs of study leading to degrees from the baccalaureate to the doctoral level.

Delta State University 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 this corporation is to acquire, construct, and equip facilities and land for the university. In accordance with Governmental Accounting Standards Board Statement Number 14, this educational building corporation is deemed a component unit of the State of Mississippi Institutions of Higher Learning and is included as a blended component unit in the general purpose financial statements.

Delta State University is a component unit of the State of Mississippi and is included in the general purpose financial statements of the State of Mississippi Institutions of Higher Learning.

- C. **Basis of Presentation** – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November, 1999. The University now follows the "business type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the University's financial activities.

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

New Accounting Standard

The IHL System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ended June 30, 2015. The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result, costs related to the pension plan previously expensed were adjusted through an adjustment to net position as of July 1, 2013.

The implementation of this standard resulted in a net pension liability and the effect of adoption is a reduction of beginning net position. The following schedule summarizes the impact on net position for fiscal year 2015.

| | <u>FY 2015</u> |
|--|-----------------------------|
| Net position - beginning of period, as previously reported | \$ 100,480,247 |
| Less: proportionate share of net pension liability | <u>(38,115,913)</u> |
| Beginning of period, as adjusted | <u>62,364,334</u> |
| Change in net position, as previously reported | 6,280,338 |
| Impact of GASB No. 68 implementation | <u>2,659,100</u> |
| Change in net position, as adjusted | <u>8,939,438</u> |
| Net position - end of period, as adjusted | <u><u>\$ 71,303,772</u></u> |

- D. **Basis of Accounting** – The financial statements of the University have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. All significant intra-agency transactions have been eliminated.
- E. **Cash Equivalents** – For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- F. **Investments** – The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. Investments for which there are no quoted market prices are not material.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

- G. **Accounts Receivable, Net** – Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from federal and state governments and nongovernmental sources in connection with reimbursement of allowable expenses made pursuant to the University's grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.
- H. **Student Notes Receivable, Net** - Student notes receivable consist of federal, state, and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances that are expected to be paid during the next fiscal year are presented on the Statement of Net Assets 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 Non-Current Assets on the Statement of Net Assets.
- I. **Inventories** – Inventories consist of Copy Center (office and photocopy supplies) and Facilities Management (janitorial, maintenance and replacement parts). These inventories are generally valued at the lower of cost or market, on the average cost basis.
- J. **Prepaid Expenses** – Prepaid expenses consist of expenditures related to projects, programs, and activities that are related to future fiscal periods.
- K. **Non-Current Cash and Investments** – Cash investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or non-current assets are classified as non-current assets in the Statement of Net Assets.
- L. **Capital Assets** – Capital Assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. 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 is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional categories. See Note #6 for additional details concerning useful lives, salvage values, and capitalization thresholds. 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. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activity facilities.
- M. **Collections** – On occasion, institutions may obtain collections of art or historical treasures (usually as private donations to the institution). These collections are usually held for public exhibition, education or research. The institutions are not required to capitalize these collections and in practice generally do not capitalize their value in the financial presentation.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

- N. **Accounts Payable and Accrued Liabilities** – Accounts payable and accrued liabilities consist of amounts owed to vendors, contractors, or accrued items such as interest, salaries, and wages.
- O. **Income Taxes** – Each Mississippi public institution of higher learning is considered a state agency and is treated as a governmental entity for tax purposes. As such, they are generally not subject to federal and state income taxes. However, these institutions do remain subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which the institution was granted exemption. No income tax provision has been recorded because, in the opinion of management, there is no significant amount of taxes on such unrelated business income.
- P. **Deferred Revenues** – Deferred 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. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- Q. **Compensated Absences** – 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 15 years of service; and from 15 years of service and over, 18 hours per month are earned. There is no requirement that annual leave be taken, and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated leave.
- Nine-month employees earn major medical leave at a rate of 13-1/3 hours per month for one month to three years of service; 14-1/5 hours per month for three to eight years of service; 15-2/5 hours per month for eight to 15 years of service; and from 15 years of service and over, 16 hours per month are earned. There is no limit on the accumulated of major medical leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.
- R. **Deposits Refundable** – Deposits refundable represent good faith deposits from students to reserve housing assignments, key deposits, and breakage deposits in a university system residence hall.
- S. **Non-Current Liabilities** – Non-Current liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.
- T. **Classification of Revenues and Expenses** – The University has classified its revenues and expenses as either operating or non-operating according to the following criteria:

Operating Revenues and Expenses: Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

exchanges in which two or more entities both receive and sacrifice value, such as purchases and sales of goods and services. Examples of operating revenues include (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) most federal, state and private grants and contracts, and (4) other operating 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, supplies and other services; (4) professional fees; and (5) depreciation expense related to certain capital assets.

Non-Operating Revenues and Expenses: Non-operating revenues and expenses have the characteristics of non-exchange transactions. Examples of non-operating revenues include state appropriations, gifts, and contributions. Examples of non-operating expenses include interest on capital assets and bond expenses. Non-operating revenues and expenses are defined by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34.

- U. 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 operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid not considered to be third party aid.
- V. Auxiliary Enterprise Activities** – Auxiliary enterprises typically exist to furnish goods or services to students, faculty, or staff, and generally 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 (e.g., residence halls and food services). The general public may be served incidentally by auxiliary enterprises.
- W. Equity Classifications** – Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Net investments in capital assets – consist of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

assets and increase by balances of deferred outflows of resources related to those assets.

Restricted net position – net position is considered restricted if their use is for a specific purpose and funds held in Federal loan programs. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the university. The unrestricted net position balance of (\$27,207,812) at June 30, 2016, includes \$213,550 reserved for inventories; \$221,444 reserved for encumbrances; \$500,000 reserved for equipment; with (\$28,142,806) remaining for other purposes. The unrestricted net position balance of (\$26,021,871) at June 30, 2015, includes \$215,595 reserved for inventories; \$330,559 reserved for encumbrances; \$500,000 reserved for equipment; with (27,068,025) remaining for other purposes.

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

Note 2 - Prior Period Adjustments

For the year ended June 30, 2016 and 2015, respectively, the institution recorded the following prior period adjustments:

| | Additions (Deductions) | |
|---------------------------------------|------------------------|-----------------------|
| | At June 30, 2016 | At June 30, 2015 |
| Corrections to Loan Fund Balance | \$25,000 | \$43,919 |
| Correction of Prior Year Receivables | \$72,817 | \$31,778 |
| Reversal of Uncollectable Receivables | \$0 | (\$134,986) |
| GASB 68 - Pension Liab. | \$0 | (\$35,456,814) |
| Total Adjustments | <u>\$97,817</u> | <u>(\$35,516,103)</u> |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 3 - Cash and Investments

Policies:

- A. **Cash and Short-Term Investments** – Investment policies for cash and short-term investments as set forth by the IHL 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.

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowments are included in Non-Current Investments.

The collateral for public entities' deposits in financial institutions are now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the University's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of 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 Depository Insurance Corporation.

- B **Investments** – Investment policy at each university is governed by state statute (Section 27-105-33, MS Code Ann. 1972) and the Uniform Management of Institutional Funds Act of 1998. An institution may at its discretion adopt policies affecting investments beyond the standards cited above.

The following table presents the fair value of investments by type at June 30:

| <u>Investment Type</u> | <u>2016</u> | <u>2015</u> |
|------------------------------------|--------------------|--------------------|
| U.S. Government Agency Obligations | \$4,021,571 | \$3,970,849 |
| State Municipal Bonds | \$146,333 | 2,726,771 |
| Mortgage Backed Securities | \$2,202,123 | 1,598,572 |
| Certificates of Deposit | \$137,461 | 137,461 |
| Money Market | \$288,949 | |
| Total | <u>\$6,796,438</u> | <u>\$8,433,653</u> |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Interest Rate Risk

Per GASB Statement No. 40, Interest Rate Risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning does not presently have a formal policy that addresses interest rate risk.

As of June 30, 2016, the University had the following investments subject to interest rate risk:

| Investment Type | Fair Value | Investment Maturities (in years) | | | |
|------------------------------------|---------------|----------------------------------|-------------|-------------|--------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| U.S. Government Agency Obligations | \$4,021,571 | \$0 | \$2,566,478 | \$1,455,093 | \$0 |
| State Municipal Bonds | 146,333 | 0 | 146,333 | | |
| Mortgage Backed Bonds | 2,202,123 | 0 | 1,614,565 | 587,558 | |
| Certificates of Deposit | 137,461 | | 137,461 | | |
| Money Market | 288,949 | | 288,949 | | |
| Total | \$6,796,438 | \$0 | \$4,753,786 | \$2,042,651 | \$0 |

As of June 30, 2015, the University had the following investments subject to interest rate risk:

| Investment Type | Fair Value | Investment Maturities (in years) | | | |
|------------------------------------|---------------|----------------------------------|-------------|-------------|--------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| U.S. Government Agency Obligations | \$3,970,849 | \$0 | \$0 | \$2,618,805 | \$1,352,044 |
| State Municipal Bonds | 2,726,771 | 0 | 2,726,771 | | |
| Mortgage Backed Bonds | 1,598,572 | 0 | 1,598,572 | | |
| Certificates of Deposit | 137,461 | | 137,461 | | |
| Total | \$8,433,653 | \$0 | \$4,462,804 | \$2,618,805 | \$1,352,044 |

DELTA STATE UNIVERSITY

Notes to Financial Statements
For the Year Ended June 30, 2016

| Fair Value Measurement | 2016 | | | |
|-------------------------------|-------------|-----------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Government Securities | \$4,021,571 | | | \$4,021,571 |
| Corporate bonds | 137,461 | | | 137,461 |
| Certificate of Deposit | | | | |
| Other fixed income securities | 435,282 | 2,202,123 | | 2,637,405 |
| Total fixed income | 4,594,314 | 2,202,123 | | 6,796,437 |
| <hr/> | | | | |
| Total | \$4,594,314 | 2,202,123 | | 6,796,437 |

| Fair Value Measurement | 2015 | | | |
|-------------------------------|-------------|-------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Government Securities | \$3,970,849 | 0 | 0 | \$3,970,849 |
| Corporate bonds | | | | |
| Certificate of Deposit | 137,461 | | | 137,461 |
| Other fixed income securities | 2,726,771 | 1,598,572 | | 4,325,343 |
| Total fixed income | 6,835,081 | 1,598,572 | | 8,433,653 |
| <hr/> | | | | |
| Total | \$6,835,081 | \$1,598,572 | 0 | \$8,433,653 |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Credit Risk

The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses credit risk. As of June 30, 2016 and 2015, respectively, the University had the following investment credit risk:

| <u>Rating</u> | <u>Fair Value at June 30, 2016</u> | <u>Fair Value at June 30, 2015</u> |
|---------------|--|--|
| AAA | \$6,796,438 | \$8,433,653 |
| Total | <u>\$6,796,438</u> | <u>\$8,433,653</u> |

The credit risk rating listed above is issued upon standards set by Standard and Poor's.

Concentration of Credit Risk

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses Concentration of Credit Risk. At June 30, the University's funds were invested as follows:

| <u>Issuer</u> | <u>2016</u> | <u>%</u> | <u>2015</u> | <u>%</u> |
|--|------------------|--------------|------------------|---------------|
| Certificate of Deposit & Money Market | \$274,924 | 4.05% | \$137,461 | 1.63% |
| Federal Farm Credit Bank Funding Corp | \$751,806 | 11.06% | 1,005,045 | 11.92% |
| Federal Home Loan Mortgage Corporation | \$502,361 | 7.39% | 2,710,096 | 32.13% |
| Federal Home Loan Board (FHLB) | \$1,000,331 | 14.71% | 255,708 | 3.03% |
| Ginnie Mae Mortgage Association (GNMA) | \$3,869,650 | 56.93% | 1,480,059 | 17.55% |
| Federal National Mortgage Association | \$251,034 | 3.69% | 118,513 | 1.41% |
| State Municipal Bonds | <u>\$146,333</u> | <u>2.17%</u> | <u>2,726,771</u> | <u>32.33%</u> |
| Total | \$6,796,438 | 100.00% | \$8,433,653 | 100.00% |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 4 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

| | 2016 | 2015 |
|--|---------------------------|---------------------------|
| Student Tuition | \$5,740,426 | \$6,357,080 |
| Auxiliary Enterprises and Other Operating | \$1,125,931 | 1,951,089 |
| Federal, State, and Private Grants and Contracts | \$1,539,006 | 1,209,345 |
| State Appropriations | \$438,659 | 582,054 |
| Accrued Interest | \$31,100 | 44,285 |
| Total Accounts Receivable | <u>\$8,875,122</u> | <u>\$10,143,853</u> |
| Less Allowance for Doubtful Accounts | <u>(3,418,572)</u> | <u>(3,392,044)</u> |
| Net Accounts Receivable | <u><u>\$5,456,550</u></u> | <u><u>\$6,751,809</u></u> |

Note 5 - Notes Receivable from Students

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from the date of separation from the University. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the University at June 30, 2016, followed by the schedule for June 30, 2015.

| | Interest Rates | Balance June 30, 2016 | Current Portion | Non-Current Portion |
|--------------------------------------|-------------------|--------------------------|-------------------------|---------------------------|
| Perkins Student Loans | 5% | \$1,730,032 | \$321,652 | \$1,408,380 |
| Institutional Loans | 0% to 5% | 29,950 | 11,980 | 17,970 |
| Total Notes Receivable | | 1,759,982 | 333,632 | 1,426,350 |
| Less Allowance For Doubtful Accounts | | <u>(243,472)</u> | | <u>(243,472)</u> |
| Net Notes Receivable | | <u><u>1,516,510</u></u> | <u><u>\$333,632</u></u> | <u><u>\$1,182,878</u></u> |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 5 - Notes Receivable from Students (continued)

| | Interest Rates | Balance June 30, 2015 | Current Portion | Non-Current Portion |
|--------------------------------------|-------------------|--------------------------|--------------------|------------------------|
| Perkins Student Loans | 5% | \$1,907,636 | \$326,843 | \$1,580,793 |
| Institutional Loans | 0% to 5% | 29,950 | 11,980 | 17,970 |
| Total Notes Receivable | | 1,937,586 | 338,823 | 1,598,763 |
| Less Allowance For Doubtful Accounts | | (243,472) | | (243,472) |
| Net Notes Receivable | | 1,694,114 | \$338,823 | \$1,355,291 |

Note 6 - Capital Assets

Summaries of changes in capital assets for the years ended June 30, 2016 and 2015, respectively, are presented as follows:

| | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|-------------------------------------|-------------------------|-------------|-----------|--------------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$860,862 | \$0 | \$0 | \$860,862 |
| Construction in Progress | 22,333,007 | 2,350,000 | \$0 | 24,683,007 |
| Total Nondepreciable Capital Assets | \$ 23,193,869 | \$2,350,000 | \$0 | \$25,543,869 |
| Depreciable Capital Assets: | | | | |
| Infrastructure | \$12,682,177 | \$0 | \$0 | \$12,682,177 |
| Buildings | 128,472,574 | \$26,534 | 0 | 128,499,108 |
| Equipment | 11,810,408 | 840,387 | 584,875 | 12,065,920 |
| Library Books | 15,448,307 | 431,096 | 23,975 | 15,855,428 |
| Total Depreciable Capital Assets | \$168,413,467 | \$1,298,017 | \$608,850 | \$169,102,633 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | 5,924,981 | 332,666 | \$0 | 6,257,647 |
| Buildings | 41,728,977 | 2,346,930 | 0 | 44,075,907 |
| Equipment | 11,056,568 | 727,789 | 0 | 11,784,354 |
| Library Books | 13,782,105 | 456,023 | 0 | 14,238,128 |
| Total Accumulated Depreciation | \$72,492,631 | \$3,863,404 | \$0 | \$76,356,035 |
| Capital Assets, Net | \$119,114,705 | \$(215,387) | \$608,850 | \$118,290,467 |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 6 - Capital Assets (continued)

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 |
|-------------------------------------|-------------------------|-------------|-----------|--------------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$860,862 | \$0 | \$0 | \$860,862 |
| Construction in Progress | 15,943,067 | \$6,389,940 | \$0 | \$22,333,007 |
| Total Nondepreciable Capital Assets | \$ 16,803,929 | \$6,389,940 | \$0 | \$23,193,869 |
| Depreciable Capital Assets: | | | | |
| Infrastructure | \$12,682,177 | \$0 | \$0 | \$12,682,177 |
| Buildings | 128,472,574 | \$0 | 0 | 128,472,574 |
| Equipment | 12,095,835 | 635,892 | 921,318 | 11,810,408 |
| Library Books | 15,120,948 | 351,334 | 23,975 | 15,448,307 |
| Total Depreciable Capital Assets | \$168,371,534 | \$987,226 | \$945,293 | \$168,413,467 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | 5,562,388 | \$362,593 | \$0 | \$5,924,981 |
| Buildings | 39,353,416 | 2,375,561 | 0 | 41,728,977 |
| Equipment | 10,343,295 | 713,273 | 0 | 11,056,568 |
| Library Books | 13,303,679 | 478,426 | 0 | 13,782,105 |
| Total Accumulated Depreciation | \$68,562,778 | 3,929,853 | \$0 | \$72,492,631 |
| Capital Assets, Net | \$116,612,685 | \$3,447,313 | \$945,293 | \$119,114,705 |

As of June 30, 2016, capital assets included assets under capital leases with an original cost of \$1,777,530 and accumulated depreciation of \$786,557.91 for 2016 and \$484,377 for 2015.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 6 - Capital Assets (continued)

Depreciation is computed on a straight-line basis with the exception of the library books category, which is computed using a composite method. The following useful lives, salvage values, and capitalization thresholds are used to compute depreciation:

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

Note 7 – Accounts Payable and Accrued Liabilities

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

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|---|----------------------|----------------------|
| Payable to vendors and contractors | \$1,169,719 | \$1,267,212 |
| Accrued salaries, wages, employee withholdings/fringes | \$1,762,554 | 626,591 |
| Other | \$310,314 | 904,610 |
| Total Accounts Payable and Accrued Liabilities | <u>\$3,242,587</u> | <u>\$2,798,413</u> |

Note 8 – Deferred Revenues

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

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--------------------------------------|----------------------|----------------------|
| Unearned grants and contract revenue | \$885,585 | \$574,868 |
| Other | | 0 |
| Total Deferred Revenues | <u>\$885,585</u> | <u>\$574,868</u> |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 9 – Long-Term Liabilities

Long-term liabilities of the University 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, 2013. The various leases cover a period not to exceed five years. The University has the option to prepay all outstanding payments 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.

Information regarding original issue amounts, interest rates, and maturity dates for bonds, notes, and capital leases included in the Long-Term Liabilities balance at June 30, 2013, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Revenue Bonds, Series 1998, were issued December 1, 1998, by the Delta State University Educational Building Corporation to provide funds for the construction of a new men's residence hall (unnamed as of the date of this document) on the Cleveland campus. The original issue amount was \$3,900,000. Semi-annual interest rates range from 3.4% to 5%. The bonds were scheduled to be retired in full in December, 2018 however they were retired August 27, 2009 and refunded with Bonds, Series 2009A (Refunding Project).

Revenue Bonds, Series 2009A (Refunding Project) were issued August 27, 2009, by the Delta State University Educational Building Corporation to refund Series 1998 Revenue Bonds. The Original issue amount was \$3,135,000. Semi-annual interest rates range from 2.5% to 3.75%. The Bonds are scheduled to be retired in full in December, 2018.

Revenue Bonds, Series 2003, were issued December 1, 2003, by the Delta State University Educational Building Corporation to provide funds for the renovation of the Court of Governors Residence Hall and other related projects on the Cleveland campus. The original issue amount was \$2,475,000. Semiannual interest rates range from 3.00% to 4.25%. The bonds are scheduled to be completely retired in December, 2023.

Delta State University has entered into a Lease Purchase Agreement in August 2010 with Statesman Housing LLC (SHL) for the use of a 362 bed residence hall and a 32 unit apartment complex located on the DSU campus to house students, faculty and staff. The Mississippi Business Finance Corporation issued \$17,065,000 MBFC Revenue Bonds and \$175,000 MBFC Taxable Revenue Bonds to build the facilities. SHL will utilize the lease payments from DSU to pay the debt for the building. SHL will make principal payments annually starting September 1, 2012 and ending June 1, 2039. The lease payments are \$172,500 to \$530,000 to be submitted semiannually on March 1, and September 1, starting September 1, 2011. Interest rates range from 4.21% to

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 9 – Long-Term Liabilities (continued)

4.81%. Upon expiration of the 29 year lease on March 1, 2039, the University has the right to purchase the residence hall and apartment complex for the sum of one dollar (\$1.00).

Master Equipment Lease/Purchase Agreement #93.1470/11A Series 2011A was signed July 14, 2011 to purchase Aircraft for the Commercial Aviation program. Original lease agreement was issued for \$1,777,530 with semi-annual principal and interest payments beginning October, 2011. Interest rate is 4.44%. The lease is scheduled to be paid in full in April, 2018.

Long-term liabilities activity is shown as follows for the years ended June 30, 2016 and 2015:

| Description and purpose | Original Issue | Interest Rate | Maturity | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 | Due Within One Year |
|--|---------------------|----------------|-----------|----------------------|------------------|--------------------|-----------------------|---------------------|
| Bonded Debt | | | | | | | | |
| Delta State University Student Housing Bonds, Series 2003, Court of Governors Residence Hall | \$2,475,000 | 3.00% to 4.25% | 12/1/2023 | \$1,400,000 | 0 | \$130,000 | \$1,270,000 | \$135,000 |
| Refunding bonds, Series 2009A Student Housing Bonds, New Men's Residence Hall | \$3,135,000 | 2.50% to 3.75% | 12/1/2018 | \$1,635,000 | 0 | \$390,000 | \$1,245,000 | \$400,000 |
| Total Bonded Debt | \$5,610,000 | | | \$3,035,000 | \$0 | \$520,000 | \$2,515,000 | \$535,000 |
| Capital Leases | | | | | | | | |
| Aircraft | \$1,777,530 | 4.44% | 4/10/2018 | \$ 819,663 | 0 | \$261,315 | \$ 558,348 | \$273,045 |
| Lawn Mowers | \$87,026 | 4.00% | 4/1/2019 | \$ 81,712 | 0 | \$ 20,608 | \$ 61,104 | \$ 21,446 |
| Golf Carts | \$64,362 | 4.17% | 6/1/2019 | \$ 62,910 | 0 | \$ 16,552 | \$ 46,358 | \$ 15,742 |
| Foundation Hall & University Apt | \$17,240,000 | 4.42% | 3/1/2039 | \$15,790,000 | 0 | \$390,000 | \$15,400,000 | \$400,000 |
| Total Capital Leases | \$19,168,918 | | | \$16,754,285 | \$0 | \$688,475 | \$16,065,810 | \$710,233 |
| Other Long-Term Liabilities | | | | | | | | |
| Accrued leave liabilities | | | | \$1,559,848 | \$0 | \$75,076 | \$1,484,772 | \$ 238,236 |
| Deposits refundable | | | | \$ 133,157 | | \$ 4,862 | \$ 128,295 | |
| Federal portion – Perkins Loans | | | | \$ 1,798,647 | \$128,287 | \$0 | \$1,926,934 | 0 |
| Total Other liabilities | | | | \$3,491,652 | \$128,287 | \$79,938 | \$3,540,001 | \$ 238,236 |
| Total | | | | \$23,280,937 | \$128,287 | \$1,288,413 | \$22,120,811 | \$1,483,469 |

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Notes to Financial Statements
For the Year Ended June 30, 2016

Note 9 – Long-Term Liabilities (continued)

| Description and purpose | Original Issue | Interest Rate | Maturity | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 | Within One Year |
|--|-----------------------|----------------------|-----------------|-----------------------------|------------------|--------------------|------------------------------|------------------------|
| Bonded Debt | | | | | | | | |
| Delta State University Student Housing Bonds, Series 2003, Court of Governors Residence Hall | \$2,475,000 | 3.00% to 4.25% | 12/1/2023 | \$1,525,000 | 0 | \$125,000 | \$1,400,000 | \$130,000 |
| Refunding bonds, Series 2009A Student Housing Bonds, New Men's Residence Hall | \$3,135,000 | 2.50% to 3.75% | 12/1/2018 | \$2,010,000 | 0 | \$375,000 | \$1,635,000 | \$390,000 |
| Total Bonded Debt | \$5,610,000 | | | \$3,535,000 | \$0 | \$500,000 | \$3,035,000 | \$520,000 |
| Capital Leases | | | | | | | | |
| Aircraft | \$1,777,530 | 4.44% | 4/10/2018 | \$1,069,750 | | \$250,087 | \$819,663 | \$590,338 |
| Lawn Mowers | \$87,026 | 4.00% | 4/1/2019 | | \$87,026 | \$5,314 | \$81,712 | \$20,607 |
| Golf Carts | \$64,362 | 4.17% | 6/1/2019 | | \$64,362 | \$1,452 | \$62,910 | \$15,099 |
| Foundation Hall & University Apt | \$17,240,000 | 4.42% | 3/1/2039 | \$16,170,000 | 0 | \$380,000 | \$15,790,000 | \$390,000 |
| Total Capital Leases | \$19,168,918 | | | \$17,239,750 | \$151,388 | \$636,853 | \$16,754,285 | 1,016,044 |
| Other Long-Term Liabilities | | | | | | | | |
| Accrued leave liabilities | | | | \$1,413,502 | \$146,346 | | \$1,559,848 | \$204,703 |
| Deposits refundable | | | | \$136,425 | | \$3,268 | \$133,157 | |
| Federal portion – Perkins Loans | | | | \$1,817,516 | \$0 | \$18,869 | \$1,798,647 | 0 |
| Total Other liabilities | | | | \$3,367,443 | \$146,346 | \$22,137 | \$3,491,652 | \$204,703 |
| Total | | | | \$24,142,193 | \$297,734 | \$1,158,990 | \$23,280,937 | \$1,740,747 |

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Notes to Financial Statements For the Year Ended June 30, 2016

| | <u>Bonded Debt</u> | <u>Interest</u> | <u>Capital Leases</u> | <u>Interest</u> | <u>Total Payments</u> |
|---------|------------------------|-------------------|---------------------------|---------------------|---------------------------|
| 2017 | 535,000.00 | 85,055.00 | 710,234.09 | 700,593.99 | 2,030,883.08 |
| 2018 | 555,000.00 | 66,738.00 | 744,035.45 | 672,792.63 | 2,038,566.08 |
| 2019 | 580,000.00 | 45,881.00 | 467,993.99 | 644,868.99 | 1,738,743.98 |
| 2020 | 155,000.00 | 31,812.50 | 455,000.00 | 626,850.00 | 1,268,662.50 |
| 2021 | 160,000.00 | 25,512.50 | 470,000.00 | 608,650.00 | 1,264,162.40 |
| 2022-26 | 530,000.00 | 34,318.75 | 2,670,000.00 | 2,728,876.00 | 5,963,194.75 |
| 2027-31 | 0.00 | 0.00 | 3,325,000.00 | 2,072,840.00 | 5,397,840.00 |
| 2032-36 | 0.00 | 0.00 | 4,190,000.00 | 1,206,404.00 | 5,396,404.00 |
| 2037-40 | 0.00 | 0.00 | 3,035,000.00 | 208,166.00 | 3,243,166.00 |
| Total | <u>2,515,000.00</u> | <u>289,317.75</u> | <u>16,067,263.53</u> | <u>9,470,041.61</u> | <u>28,341,622.89</u> |

Note 10 - Operating Leases

Leased property under operating leases is composed of photocopiers. The following is a schedule by years of the future minimum rental payments required under those operating leases:

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|------------------------------------|----------------------|----------------------|
| Minimum Payments | \$108,356 | \$186,482 |
| Total Minimum Payments Required | <u>\$108,356</u> | <u>\$186,482</u> |

Note 11 - Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for the year ended June 30, 2016 and 2015, respectively, are shown on the following pages.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 11 - FY2016 Natural Classifications with Functional Classifications

| Functional Classification | Salaries & Wages | Fringe Benefits | Travel | Contractual Services | Utilities | Scholarships & Fellowships | Commodities | Depreciation Expense | Other | Total |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|----------------------------|---------------------|----------------------|-----------------|----------------------|
| Instruction | 14,028,639.64 | 4,536,133.30 | 280,262.49 | 1,446,449.21 | -4,195.96 | 476,360.73 | 899,044.82 | | | 21,662,694.23 |
| Research | 98,130.47 | 23,046.38 | 4,848.65 | 91,969.44 | 0 | 0 | 1,419.86 | | | 219,414.80 |
| Public Service | 1,110,737.06 | 474,286.54 | 238,411.84 | 1,219,357.82 | 21,861.87 | 359,889.95 | 534,008.57 | | | 3,958,553.65 |
| Academic Support | 2,699,271.27 | 1,000,618.47 | 136,295.17 | 1,220,619.41 | 0 | 82,012.70 | 653,314.39 | | | 5,792,131.41 |
| Student Services | 2,892,120.75 | 1,091,115.93 | 750,704.21 | 781,705.53 | 1,280.06 | 28,289.00 | 579,866.23 | | | 6,125,081.71 |
| Institutional Support | 2,951,916.11 | 1,103,105.79 | 47,516.24 | 1,555,120.46 | 0 | -15,830.00 | 265,649.07 | | | 5,907,477.67 |
| Operation of Plant | 2,287,445.34 | 1,097,577.83 | 6,306.91 | 1,177,978.36 | 1,002,820.51 | 0 | 630,158.39 | | | 6,202,287.34 |
| Student Aid | 42,401.72 | | 8.00 | 108,401.62 | 0 | 5,406,824.26 | 52.70 | | | 5,557,688.30 |
| Auxiliary Enterprises | 1,241,218.93 | 528,673.66 | 1,003.15 | 4,332,150.15 | 608,929.55 | 0 | 608,070.01 | | | 7,320,045.45 |
| Depreciation | | | | | | | | 3,863,405.39 | | 3,863,405.39 |
| Loan Expenses | | | | | | | | | 6,893.81 | 6,893.81 |
| Total Operating Expenses | 27,351,881.29 | 9,854,557.90 | 1,465,356.66 | 11,933,752.00 | 1,630,696.03 | 6,337,546.64 | 4,171,584.04 | 3,863,405.39 | 6,893.81 | 66,615,673.76 |

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 11 - FY2015 Natural Classifications with Functional Classifications

| Functional Classification | Salaries & Wages | Fringe Benefits | Travel | Contractual Services | Utilities | Scholarships & Fellowships | Commodities | Depreciation Expense | Other | Total |
|---------------------------|------------------|-----------------|--------------|----------------------|--------------|----------------------------|--------------|----------------------|-----------|---------------|
| Instruction | 13,804,664.47 | 4,057,271.54 | 271,396.75 | 828,564.55 | 53,069.07 | 104,626.24 | 787,743.15 | | | 19,907,335.77 |
| Research | 107,618.00 | 26,957.53 | 5,761.98 | 43,888.00 | 0.00 | 0.00 | 0.00 | | | 184,225.51 |
| Public Service | 1,033,458.84 | 280,104.28 | 211,359.86 | 1,333,320.24 | 8,493.34 | 203,856.00 | 696,281.63 | | | 3,766,874.19 |
| Academic Support | 2,836,890.58 | 833,091.86 | 118,324.04 | 1,178,192.22 | 0.00 | 19,238.00 | 746,278.72 | | | 5,732,015.42 |
| Student Services | 2,717,250.35 | 861,788.40 | 737,761.83 | 632,586.91 | 176.54 | 0.00 | 596,471.82 | | | 5,546,035.85 |
| Institutional Support | 2,782,618.62 | 896,716.82 | 48,083.85 | 1,068,333.93 | 0.00 | 0.00 | 245,333.82 | | | 5,041,087.04 |
| Operation of Plant | 2,290,064.50 | 852,307.00 | 7,964.11 | 1,142,853.41 | 1,709,124.45 | 0.00 | 517,284.12 | | | 6,519,597.59 |
| Student Aid | 67,204.00 | 1,503.00 | 0.00 | 93,373.86 | 0.00 | 5,426,998.76 | 0.00 | | | 5,589,079.62 |
| Auxiliary Enterprises | 1,049,927.30 | 447,919.91 | 1,751.58 | 6,545,368.88 | 714,102.60 | 0.00 | 449,991.74 | | | 9,209,062.01 |
| Depreciation | | | | | | | | 3,929,852.00 | | 3,929,852.00 |
| Loan Expenses | | | | | | | | | 56,012.00 | 56,012.00 |
| Total Operating Expenses | 26,689,696.66 | 8,257,660.34 | 1,402,404.00 | 12,866,482.00 | 2,484,966.00 | 5,754,719.00 | 4,039,385.00 | 3,929,852.00 | 56,012.00 | 65,481,177.00 |

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Notes to Financial Statements For the Year Ended June 30, 2016

Note 12 - Construction Commitments and Financing

The University 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:

| Projects | Total Costs to Complete | Remaining Estimated Costs to Complete | Funded By Federal Sources | Funded by State Sources | Institutional Funds | Other |
|--------------------------------------|----------------------------|--|------------------------------------|----------------------------|------------------------|-------|
| Caylor –White/ Walters Renovation | \$18,033,007 | \$840,428 | | \$18,033,007 | | |
| Res. Hall Fire Suppression | \$2,300,000 | \$263,588 | | \$2,300,000 | | |
| Central Mechanical Plant | \$2,000,000 | \$286,008 | | \$2,000,000 | | |
| Campus Paving | \$2,350,000 | \$468,698 | | \$2,350,000 | | |
| Total | \$24,683,007 | \$1,858,722 | \$0 | \$24,683,007 | \$,0 | \$0 |

Note 13- Pension Plan

(a) PERS Defined Benefit Plan

Plan Description

The IHL System participates in either the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan or the Optional Retirement Plan (ORP), a multiple-employer defined contribution plan established in 1990. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issued a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement IHL System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Vesting Period

In 2007, the Mississippi Legislature amended the PERS Plan to change the vesting period from four to eight years for members who entered the IHL System after July 1, 2007. A member who entered the IHL System prior to July 1, 2007 is still subject to the four year vesting period provided that the member does not subsequently refund their account balance.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Funding Policy

PERS members are required to contribute 9.0% of their annual salary and the institution is required to contribute at an actuarially determined rate. The actuarially determined rate was 15.75% of annual covered payroll at June 30, 2016 and 2015. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The University's contributions to PERS for the years ended June 30, 2016, 2015, and 2014, were \$2,664,039, \$2,685,024, and \$2,659,100, respectively. Such contributions equaled the required contributions for each respective year.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the University reported a liability of \$42.2 million and \$33.5 million, respectively, for its proportionate share of the net pension liability. The net pension liability for June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The University's proportionate share of the net pension liability as of June 30, 2015 and 2014 was 0.27 and 0.28 percent, respectively.

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$4.0 million and \$2.3 million, respectively. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflow of resources | | | | | Deferred inflow of resources | | | |
|------------------------|--|------------------------|---|--|--------------------------------------|--|---|------------------------|-------------------------------------|
| | Differences between expected and actual experience | Changes of assumptions | Changes in proportion and differences between Employer contributions and proportionate share of contributions | Contributions subsequent to the measurement date | Total deferred outflows of resources | Differences between expected and actual experience | Net difference between projected and actual investment earnings on pension plan investments | Changes of assumptions | Total deferred inflows of resources |
| Delta State University | 984,132 | 3,633,785 | 123,279 | 2,629,908 | 7,371,104 | - | 1,565,206 | - | 1,565,206 |

\$2.6 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| | Deferred outflow of resources year ended June 30 | | | | | |
|------------------------|--|-----------|-----------|---------|---------|-----------|
| | 2017 | 2018 | 2019 | 2020 | | Total |
| Delta State University | 1,274,515 | 1,274,515 | 1,274,515 | 917,651 | | 4,741,196 |
| | | | | | | |
| | Deferred inflow of resources year ended June 30 | | | | | |
| | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
| Delta State University | 313,041 | 313,041 | 313,041 | 313,041 | 313,042 | 1,565,206 |

DELTA STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2016

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-----------------|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2015 |
| Actuarial cost method | Entry age |
| Actuarial assumptions: | |
| Discount rate | 7.75% |
| Inflation | 3.00% |
| Payroll growth | 3.75% |
| Projected salary increase | 3.75-19.00% (1) |
| Investment rate of return | 7.75% (2) |

(1) Depending on age, service, and type of employment, including inflation

(2) Net of pension plan investment expense, including inflation

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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

Discount rate – The discount rate used to measure the total pension liability was 7.75 percent. 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%). 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.

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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Notes to Financial Statements For the Year Ended June 30, 2016

| <u>Asset class</u> | <u>Target allocation</u> | <u>Long-term expected real rate of return</u> |
|-------------------------|--------------------------|---|
| 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> | |

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.75%, 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%) or 1-percentage point higher (8.75%) than the current rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current discount rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|------------------------|--------------------------------|--|--------------------------------|
| Delta State University | | | |
| Net pension liability | 55,598,953 | 42,181,402 | 31,047,345 |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(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 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 employees and in the event of death, provides funds for their beneficiaries, through an arrangement by which contributions are made to this plan. The current contribution rate of both the employee and the University are identical to that of the PERS defined contribution plan. The ORP uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices. Employees immediately vest in plan contributions upon entering the plan. The University's contributions to the ORP for the years ended June 30, 2016, 2015, and 2014 were \$212,396, \$194,969, and \$192,855 respectively, which equaled its required contribution for each respective year.

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Notes to Financial Statements For the Year Ended June 30, 2016

Required Supplementary Information (Unaudited)

Schedule of Proportionate Share of Net Pension Liability

For the years ended June 30, 2016 and 2015

| | Proportionate share of the net pension liability | Proportionate share of the net pension liability | FY 2015 Covered- employee payroll | Proportionate share of the net pension liability as a percentage of its covered- employee payroll | PERS fiduciary net position as a percentage of the total pension liability |
|-------------------------|---|--|--|--|--|
| Delta State University: | | | | | |
| 2016 | 0.27% | 42,181,402 | 17,047,771 | 247.43% | 61.70% |
| 2015 | 0.28% | 33,537,396 | 16,883,175 | 199.00% | 67.00% |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Schedule of Proportionate Share of Contributions

For the years ended June 30, 2016 and 2015

| | Proportionate share of contributions | Required contributions | Contribution deficiency (excess) | FY 2016 Covered- employee payroll | Contribution as a percentage of covered- employee payroll |
|-------------------------|--|---------------------------|--|---|--|
| Delta State University: | | | | | |
| 2016 | 2,629,908 | (2,629,908) | - | 16,697,827 | 15.75% |
| 2015 | 2,664,943 | (2,664,943) | - | 16,920,273 | 15.75% |

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Notes to Required Supplementary Information
June 30, 2016

(1) Schedule of Proportionate Share of Net Pension Liability

This schedule presents historical trend information about the University's proportionate share of the net pension liability for its employees who participate in the PERS. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the plan. Information related to years prior to 2015 is not available, therefore, trend information will be accumulated to display a ten-year presentation.

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

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to years prior to 2015 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: Amounts reported for fiscal year 2016 reflect changes in assumptions since the last Measurement Date based on an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience study report is dated May 4, 2015. The change in TPL due to changes in actuarial assumptions is spread over the remaining service life of the entire PERS membership just like Plan experience.

Change of benefit terms: Amounts reported for fiscal year 2016 reflect no changes in benefit terms.

DELTA STATE UNIVERSITY

Notes to Financial Statements For the Year Ended June 30, 2016

Note 14 - Donor Restricted Endowments

Most endowments operate on the total-return concept as permitted by the Uniform Management of Institutional Funds Act (Sections 79-11-601 through 79-11-617, MS Code, Ann. 1972) as enacted in 1998. The annual spending rate for these endowments is 100% of the interest earned. The restricted endowments were transfer to the Delta State University Foundation in the 2014 fiscal year.

Note 15 - Federal Direct Lending and FFEL Programs

The University distributed \$20,825,936 for the year ended June 30, 2016, for student loans through the U. S. Department of Education lending programs. These distributions and their related funding sources are included as "Cash Flows from Non-Capital Financing Activities" in the Statement of Cash Flows.

Note 16 - Foundations and Affiliated Parties

The various institutions comprising the State of Mississippi Institutions of Higher Learning are each affiliated with one or more foundations or affiliated parties, which are independent organizations formed for the purpose of receiving funds for the sole benefit of the respective institutions. These foundations and affiliated parties are separately audited and have not been, nor are they required to be, included in these financial statements.