KPMG

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Morgan Keegan Tower
Suite 900
50 North Front Street
Memphis, TN 38103-1194

Independent Auditors' Report

The Board of Directors
The University of Mississippi Foundation:

We have audited the accompanying statements of financial position of The University of Mississippi Foundation (the Foundation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 15, 2010

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2010 and 2009

Assets		**2010**	**2009**
Cash and cash equivalents	$	8,862,840	3,671,027
Pledges receivable, less allowance for doubtful pledges of $3,667,008 in 2010 and $1,771,452 in 2009		19,394,674	22,273,648
Investments		279,527,616	250,547,579
Beneficial interest in remainder trust		4,511,220	3,730,226
Other assets		10,232,349	1,642,405
Property and equipment, net		1,992,201	2,087,430
Total assets	$	324,520,900	283,952,315
Liabilities and Net Assets			
Funds held for others	$	17,719,982	15,686,378
Liabilities under remainder trusts		4,356,502	4,352,873
Other liabilities		16,611,935	2,858,813
Total liabilities		38,688,419	22,898,064
Net assets (deficit):			
Unrestricted		4,806,645	(2,231,842)
Temporarily restricted		130,827,278	123,853,162
Permanently restricted		150,198,558	139,432,931
Total net assets		285,832,481	261,054,251
Total liabilities and net assets	$	324,520,900	283,952,315

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2010

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Contributions, gifts, and bequests	$	—	17,588,774	6,265,205	23,853,979
Dividend and interest income		1,418,841	6,570,426	—	7,989,267
Net unrealized and realized gains on investments		6,832,070	13,922,736	—	20,754,806
Change in value of split-interest agreements		—	780,994	(265,180)	515,814
Other income		1,515,780	3,102,752	12,927	4,631,459
Total revenues, gains, and other support		9,766,691	41,965,682	6,012,952	57,745,325
Net assets released from restrictions/ redesignated by donor		30,238,891	(34,991,566)	4,752,675	—
Expenses:					
Support for University activities		30,012,083	—	—	30,012,083
General and administrative expenses		1,802,674	—	—	1,802,674
Fund-raising expenses		1,152,338	—	—	1,152,338
Total expenses		32,967,095	—	—	32,967,095
Change in net assets		7,038,487	6,974,116	10,765,627	24,778,230
Net assets (deficit), beginning of year		(2,231,842)	123,853,162	139,432,931	261,054,251
Net assets, end of year	$	4,806,645	130,827,278	150,198,558	285,832,481

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, gifts, and bequests	$ —	20,400,351	8,316,897	28,717,248
Dividend and interest income	1,029,492	8,636,791	—	9,666,283
Net unrealized and realized losses on investments	(9,785,640)	(35,708,466)	—	(45,494,106)
Change in value of split-interest agreements	—	312,461	580,077	892,538
Other income	1,685,620	1,942,597	8,588	3,636,805
Total revenues, gains, and other support	(7,070,528)	(4,416,266)	8,905,562	(2,581,232)
Net assets released from restrictions/ redesignated by donor	38,840,006	(39,524,248)	684,242	—
Expenses:				
Support for University activities	37,484,939	—	—	37,484,939
General and administrative expenses	1,708,053	—	—	1,708,053
Fund-raising expenses	1,000,639	—	—	1,000,639
Total expenses	40,193,631	—	—	40,193,631
Change in net assets	(8,424,153)	(43,940,514)	9,589,804	(42,774,863)
Net assets, beginning of year	6,192,311	167,793,676	129,843,127	303,829,114
Net assets (deficit), end of year	$ (2,231,842)	123,853,162	139,432,931	261,054,251

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	24,778,230	(42,774,863)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation		134,355	159,466
Permanently restricted contributions		(6,265,205)	(8,316,897)
Gifts in kind		(1,006,000)	—
Net realized and unrealized (gains) losses on investments		(20,754,806)	45,494,106
Changes in operating assets and liabilities:			
Other assets		610,056	(111,442)
Pledges receivable		3,933,472	1,828,335
Funds held for others		769,101	3,604,486
Beneficial interest in remainder trust		(780,994)	(312,461)
Liabilities under remainder trusts		199,133	(402,030)
Other liabilities		4,553,122	(2,406,953)
Net cash provided by (used in) operating activities		6,170,464	(3,238,253)
Cash flows from investing activities:			
Purchases of property and equipment		(40,230)	(43,543)
Proceeds from sale of property and equipment		1,104	741,278
Purchase of investments		(71,377,256)	(88,619,784)
Proceeds from sales and maturities of investments		65,589,253	79,225,499
Net cash used in investing activities		(5,827,129)	(8,696,550)
Cash flows from financing activities:			
Permanently restricted contributions		5,210,707	7,097,845
Receipts under split-interest agreements		—	200,000
Payments to beneficiaries under remainder trusts		(362,229)	(470,277)
Net cash provided by financing activities		4,848,478	6,827,568
Net increase (decrease) in cash and cash equivalents		5,191,813	(5,107,235)
Cash and cash equivalents:			
Beginning of year		3,671,027	8,778,262
End of year	$	8,862,840	3,671,027
Supplemental noncash activity:			
Assumption of Campus Walk mortgage	$	8,133,000	—

See accompanying notes to financial statements.

(1) Nature of Organization

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

The Foundation’s investments are primarily invested in various types of investment securities within many markets. Investment securities are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation’s financial statements.

(b) Donor-Imposed Restrictions

The financial statements report amounts in three classes of net assets – unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets – based on the existence or absence of donor-imposed restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted.

When a donor restriction expires or the stated purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statements of activities as net assets released from restriction.

The permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from investment thereof be expended. The purpose of such expenditure may also be specified by the donor.

(c) Revenue Recognition

The Foundation generally recognizes gifts as revenue when notified of an unconditional promise to give. Unconditional promises to give that are expected to be collected in future years are reported at the present value of their future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Accretion of the discounts is included in contribution revenues. An allowance for uncollectible amounts is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. See note 3 for discussion of pledges receivable. Investments received by gift are recorded at fair value at the date of donation.

The increase in the cash surrender value of life insurance policies is recorded as a component of other income.

The Foundation earns a management fee of one-half of one percent on certain endowment funds. For the fiscal years ended June 30, 2010 and 2009, such fees totaled approximately $1,046,000 and $1,322,000, respectively, and were recorded as other income and reflected within unrestricted net assets.

(d) Cash and Cash Equivalents

The Foundation recognizes all demand deposit accounts as cash and cash equivalents. It is the policy of the Foundation to consider money market accounts with brokers as other short-term investments.

(e) Investments

Investments are recorded at fair value. The fair values of all investments other than real estate and partnership and membership interests (which include certain private equity investments and hedge funds) are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets, or inputs corroborated by observable market data. The Foundation's partnership and member interests are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University'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, 2010 and 2009, the University had no plans or intentions to sell investments at amounts different from NAV. The Foundation's real estate investments are also carried at fair value based on appraisal values at the date of receipt and as subsequently updated. Both realized and unrealized gains and losses are classified in the accompanying statements of activities based on restrictions put in place by the donor.

(f) Tax Status

The Foundation is exempt from federal and state income taxes; accordingly, no provision for income taxes has been made in the accompanying financial statements.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2010 and 2009 for cash and cash equivalents, pledges receivable, beneficial interest in remainder trust, funds held for others, liabilities under remainder trusts, and other liabilities approximate their fair values. See note 4 for investments.

(h) Split-Interest Agreements

The Foundation accepts gifts subject to split-interest agreements. These gifts are generally in the form of charitable remainder unitrusts (CRUTs) and charitable remainder annuity trusts (CRATs). At the time of receipt, a gift is recorded based upon the fair value of the assets donated less the present value of any applicable liabilities for projected distributions to third parties. The discount rate used to value the beneficiary liability is fixed at the gift date. CRUTs are revalued annually and the beneficiary payments adjusted accordingly. Funds subject to split-interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

The Foundation is the beneficiary of one externally managed charitable remainder trust. This trust is recorded at the present value of the estimated future cash receipts from the assets of the trust.

(i) Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12). ASU 2009-12 amends ASC Topic 820, *Fair Value Measurements*, to provide application guidance for estimating the fair value of investments in investment companies that have calculated NAV per share. As a practical expedient, the FASB decided that a reporting entity should be permitted to estimate the fair value of an investment within the scope of this ASU using net asset value without further adjustment as of the reporting entity’s measurement date. The amended guidance does not allow for use of the practical expedient for investments within the scope of ASU 2009-12 if, as of the measurement date, it is probable that the entity will sell the investment (or a portion of the investment) for an amount that differs from its net assets. In using the reported net asset value as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor’s ability to redeem its investments at the measurement date and any unfunded commitments. The Foundation is permitted to invest in alternative investment funds that do not have a readily determinable fair value, and as such, has elected to use reported NAV as calculated on the investee fund’s measurement date as the fair value of the investment.

(j) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB ASC 855, *Subsequent Events*, the Foundation evaluated subsequent events after the balance sheet date of June 30, 2010 through October 15, 2010, which was the date the financial statements were available to be issued.

(k) Reclassifications

Certain items in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2010, pledges mature at various dates through 2031 (approximately $7,780,000 is due in fiscal year 2011, $16,656,000 is due in total during the period including fiscal year 2012 through fiscal year 2016, and $1,692,000 is due thereafter). At June 30, 2009, pledges mature at various dates through 2030 (approximately $8,962,000 was due in fiscal year 2010, $16,711,000 is due in total during the period including fiscal year 2011 through fiscal year 2015, and $3,061,000 is due thereafter). A summary of pledges receivable as of June 30, 2010 and 2009 is as follows:

		2010	2009
Temporarily restricted	$	16,844,606	21,480,174
Permanently restricted		9,283,732	7,253,570
		26,128,338	28,733,744
Allowances for doubtful pledges		(3,667,008)	(1,771,452)
Present value discounts (ranging from 3.2% to 5.1%)		(3,066,656)	(4,688,644)
	$	19,394,674	22,273,648

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2010 and 2009:

	2010	2009	Liquidation period
Investment strategy:			
Fixed income:			
U.S. Government securities	$ 3,261,600	396,250	Daily
Corporate bonds	13,152,172	4,023,458	Daily
Certificates of deposit	506,615	300,267	Annually
Other fixed income securities	96,644,979	83,641,546	Daily
Total fixed income	113,565,366	88,361,521	
Equities:			
Common stocks	18,638,471	15,709,778	Daily
Common stock funds	48,694,265	57,696,230	Daily
Mutual funds	14,760,020	10,664,867	Daily
Index funds	15,067,238	18,073,841	Daily
Total equities	97,159,994	102,144,716	
Hedge funds	29,897,621	25,314,843	Various[1]
Venture capital	7,319,029	6,531,543	Illiquid[2]
Real estate:			
Real estate owned	5,146,849	6,808,299	Illiquid
Timber fund	12,706,931	2,001,906	Illiquid[3]
Partnership interest	750,000	—	Illiquid[4]
Total real estate	18,603,780	8,810,205	
Other short-term investments	12,981,826	19,384,751	Daily
Total investments	$ 279,527,616	250,547,579	

[1] Majority of these hedge funds have liquidation terms that allows the Foundation to liquidate their investment in the fund on a quarterly basis but require prior notification ranging from 30 to 65 days.

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

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

[4] This investment represents a 49% interest in a commercial property.

(5) Fair Value Measurement

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical 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 asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In accordance with ASU 2009-12, *Investments that can be Redeemed at Net Asset Value on the Measurement Date or in the Near Term*, may be classified as Level 2. NAV is used as a practical expedient to estimate the fair value of such investments unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

(Continued)

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2010.

	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government securities	$ —	3,261,600	—	3,261,600
Corporate bonds	—	13,152,172	—	13,152,172
Certificates of deposit	—	506,615	—	506,615
Other fixed income securities	94,330,700	2,314,279	— —	96,644,979
Total fixed income	94,330,700	19,234,666	—	113,565,366
Equities:				
Common stocks	18,638,471	—	—	18,638,471
Common stock funds	48,694,265	—	—	48,694,265
Mutual funds	14,760,020	—	—	14,760,020
Index funds	15,067,238	—	—	15,067,238
Total equities	97,159,994	—	—	97,159,994
Hedge funds	—	29,897,621	—	29,897,621
Venture capital	—	—	7,319,029	7,319,029
Real estate:				
Real estate owned	—	—	5,146,849	5,146,849
Timber fund	—	—	12,706,931	12,706,931
Partnership interest	—	—	750,000	750,000
Total real estate	—	—	18,603,780	18,603,780
Other short-term investments	12,981,826	—	—	12,981,826
Total investments	$ 204,472,520	49,132,287	25,922,809	279,527,616
Beneficial interest in remainder trust	$ —	—	4,511,220	4,511,220

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2009:

	Level 1	Level 2[1]	Level 3[1]	Total
Investment strategy:				
Fixed Income:				
U.S. Government securities	$ —	396,250	—	396,250
Corporate bonds	—	4,023,458	—	4,023,458
Certificates of deposit	—	300,267	—	300,267
Other fixed income securities	82,427,465	1,214,081	—	83,641,546
Total fixed income	82,427,465	5,934,056	—	88,361,521
Equities:				
Common stocks	15,709,778	—	—	15,709,778
Common stock funds	57,696,230	—	—	57,696,230
Mutual funds	10,664,867	—	—	10,664,867
Index funds	18,073,841	—	—	18,073,841
Total equities	102,144,716	—	—	102,144,716
Hedge funds	—	25,314,843	—	25,314,843
Venture capital	—	—	6,531,543	6,531,543
Real estate:				
Real estate owned	—	—	6,808,299	6,808,299
Timber fund	—	—	2,001,906	2,001,906
Total real estate	—	—	8,810,205	8,810,205
Other short-term investments	19,384,751	—	—	19,384,751
Total investments	$ 203,956,932	31,248,899	15,341,748	250,547,579
Beneficial interest in remainder trust	$ —	—	3,730,226	3,730,226

[1] These amounts do not agree to amounts included in the June 30, 2009 audited financial statements due to the guidance provided in ASU 2009-12, which became effective for annual periods ending after December 15, 2009, and which the Foundation has adopted.

See note 2(e), Investments, and note 2(h), Split-Interest Agreements, for information regarding the methods used to determine the fair value of the Foundation's investments and its beneficial interest in remainder trust. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table includes a rollforward of the amounts for the year ended June 30, 2010 and 2009 for investments classified within Level 3:

		Real estate	Venture capital	Beneficial interest in remainder trust
Balance as of June 30, 2008[1]	$	8,908,299	5,639,436	3,417,765
Net realized and unrealized gain (loss)		(98,094)	620,607	312,461
Net purchases (sales)		—	271,500	—
Balance as of June 30, 2009[1]		8,810,205	6,531,543	3,730,226
Net realized and unrealized gain (loss)		(2,006,425)	(391,766)	780,994
Net purchases (sales)		11,800,000	1,179,252	—
Balance as of June 30, 2010	$	18,603,780	7,319,029	4,511,220

[1] These amounts do not agree to amounts included in the June 30, 2009 audited financial statements due to the guidance provided in ASU 2009-12, which became effective for annual periods ending after December 15, 2009, and which the Foundation has adopted.

(6) Net Asset Classification of Endowment Funds

The Foundation adopted ASC Topic 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*, as of July 1, 2008. This standard, which is effective for years ending after December 31, 2008 provides guidance on the net asset classification of donor restricted endowment funds and related disclosures. ASC Topic 958-205 also provides guidance relative to net asset classification of funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). When adopted by the state of domicile, UPMIFA requires a number of management assessments, including:

- Determination as to whether a donor intended an endowment to maintain its purchasing power or as a fixed sum,
- The classification of endowment earnings, and
- The ability to spend corpus of an endowment.

The State of Mississippi has not adopted UPMIFA. The Foundation's Board of Directors has determined its donor agreements provide for the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds. As a result, the Foundation classifies as permanently restricted net assets the original gift donated to the permanent endowment and the original value of subsequent gifts and other income. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with the donor memorandums of agreement.

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

Income available for spending is determined by a total return system and is approved by Board of Directors of the Foundation. The amount to be spent involves taking 5 percent of a 3-year moving average of the market value per unit. The objective is to provide relatively stable spending allocations. No portion of the original gift value of the endowed assets will be allocated for spending.

(Continued)

Changes in donor-restricted endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment net assets (deficit), June 30, 2008	$ (472,305)	56,086,576	130,619,789	186,234,060
Contributions and transfers to endowment	—	—	7,309,781	7,309,781
Appropriation for expenditures	—	(9,036,789)	—	(9,036,789)
Investment return:				
Investment income	—	5,705,977	—	5,705,977
Net appreciation (depreciation)	(8,275,537)	(27,806,238)	—	(36,081,775)
Donor-restricted endowment net assets (deficit), June 30, 2009	(8,747,842)	24,949,526	137,929,570	154,131,254
Contributions and transfers to endowment	—	—	9,961,425	9,961,425
Appropriation for expenditures	—	(3,767,367)	—	(3,767,367)
Investment return:				
Investment income	—	4,618,210	—	4,618,210
Net appreciation (depreciation)	6,344,409	12,735,164	—	19,079,573
Donor-restricted endowment net assets (deficit), June 30, 2010	$ (2,403,433)	38,535,533	147,890,995	184,023,095

Due to unfavorable market fluctuations, the Foundation has endowments that have fallen below the original gift value of the funds. At June 30, 2010 and 2009, the fair values of certain permanently restricted investments were below their original contribution by approximately $2,403,000 and $8,748,000, respectively, and these deficiencies have been recorded in unrestricted net assets. Future gains will be used to restore these deficiencies in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

(7) Life Insurance Policies

The Foundation has obtained life insurance policies for which it has been named owner and beneficiary. The face amounts of life insurance policies in excess of cash surrender values held by the Foundation are deferred and recognized as revenue only when collected. The cash surrender value amounts of such policies as of June 30, 2010 and 2009 were $664,000 and $1,330,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(Continued)

(8) Charitable Trusts

The Foundation administered charitable remainder trusts with investments of approximately $5,501,000 and $5,515,000 as of June 30, 2010 and 2009, respectively, and are reported as investments on the statements of financial position. Pursuant to the trust agreements, specified amounts of income from the trust's assets must be distributed to the income beneficiaries each year. Liabilities under remainder trusts totaled $4,356,502 and $4,352,873 as of June 30, 2010 and 2009, respectively. The discount rates used in these measurement ranges from 5.25% to 6.20%. The remainder of the income and the assets will become the property of the Foundation at a time designated in the trust agreements, usually upon the death of the income beneficiary.

(9) Property and Equipment

Property and equipment consist of the following at June 30, 2010 and 2009:

		2010	2009
Land	$	300,000	300,000
Building and equipment		3,044,644	3,005,713
Total		3,344,644	3,305,713
Accumulated depreciation		(1,352,443)	(1,218,283)
Property and equipment, net	$	1,992,201	2,087,430

Depreciation expense has been computed utilizing the straight-line method over the estimated useful life of the building – 30 years and the equipment – 7 and 10 years.

(10) Campus Walk

In April 2010, the Foundation acquired, for the University's benefit, a 432-student housing complex adjacent to the University campus. This complex, known as Campus Walk, was acquired for $9,200,000 through the assumption of a $8,133,000 mortgage of the seller and additional cost of $1,067,000. The related asset and liability are recorded within other assets and other liabilities in the statements of financial position. The University reimbursed the Foundation with cash of $1,067,000 and all closing costs to facilitate the transaction. The University has the option to purchase the complex from the Foundation beginning March 2012 for the outstanding mortgage indebtedness.

On the date of the purchase, the University and Foundation also entered into a master lease agreement whereby the University will lease the complex from the Foundation for the periodic amounts that equal the debt service cost of the mortgage, as well as other incidental costs of ownership. The rental income is recorded within other income on the statement of activities while all related expenses are recorded as support for university activities.

The mortgage indebtedness interest rate is 4.70 percent and is due in interest only monthly installments until March 1, 2012, the maturity date.

(11) Net Assets

Permanently restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

		2010	2009
Academic and program support	$	32,401,864	30,415,319
Scholarship support		68,672,104	64,990,577
Faculty support		35,589,664	30,583,380
Library support		13,534,926	13,443,655
Total	$	150,198,558	139,432,931

The vast majority of temporarily restricted net assets at June 30, 2010 and 2009 were available for academic and program support.

(12) Funds Held for Others

The Foundation administered funds for others of $17,719,982 and $15,686,378 at June 30, 2010 and 2009, respectively. These funds are commingled with the Foundation's investments and are accounted for at the fair value of the underlying investments. Earnings and losses from these investments, as well as funds received and distributed, are not included in the changes in net assets of the Foundation.

The Foundation assists with fund-raising activities of the University and processes the receipts for many University affiliated organizations. During fiscal years 2010 and 2009, the Foundation received approximately $1,922,000 and $2,445,000, respectively, for the University of Mississippi Alumni Association and $16,578,000 and $15,527,000, respectively, for the UMAA Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2010 and 2009 include approximately $1,869,000 and $2,462,000, respectively, to the University of Mississippi Alumni Association and $16,404,000 and $15,491,000, respectively, to the UMAA Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During fiscal years 2010 and 2009, the Foundation received approximately $208,000 and $752,000, respectively, from these organizations and made distributions to these organizations, at the organization's direction, of approximately $528,000 and $668,000, respectively.

(13) Mississippi Common Fund Trust

Included in other liabilities are $1,378,966 and $539,439 at June 30, 2010 and 2009, respectively, related to the Mississippi Common Fund Trust. The donor-directed trust was established by the Foundation to allow donors to receive a charitable deduction for gifts to the trust. The Foundation manages the trust's assets, with earnings distributed to charitable organizations, at the donor's direction, on an annual basis. If the donor does not make an annual designation of funds to a charitable organization, then such designation may be made by the Foundation. Remaining corpus must be disbursed to one or more qualifying charitable organizations within one year after the death of the donor's surviving spouse as directed through the donor's will or other instruction or it will revert to the Foundation.