



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010, 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 20, 2011

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 6,878,425	8,862,840
Pledges receivable, net	20,660,408	19,394,674
Investments	299,717,776	279,527,616
Beneficial interest in remainder trust	5,313,904	4,511,220
Property and equipment, net	1,883,903	1,992,201
Campus Walk	9,200,000	9,200,000
Other assets	1,221,435	1,032,349
Total assets	\$ <u>344,875,851</u>	<u>324,520,900</u>
Liabilities and Net Assets		
Funds held for others	\$ 20,570,386	17,719,982
Liabilities under remainder trusts	4,936,295	4,356,502
Campus Walk	9,200,000	9,200,000
Other liabilities	3,810,534	7,411,935
Total liabilities	<u>38,517,215</u>	<u>38,688,419</u>
Net assets:		
Unrestricted	7,720,791	4,806,645
Temporarily restricted	139,550,955	130,827,278
Permanently restricted	159,086,890	150,198,558
Total net assets	<u>306,358,636</u>	<u>285,832,481</u>
Total liabilities and net assets	\$ <u>344,875,851</u>	<u>324,520,900</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts, and bequests	\$ —	18,335,521	7,969,152	26,304,673
Dividend and interest income	1,546,842	6,842,501	—	8,389,343
Net unrealized and realized gains on investments	2,820,405	29,580,881	—	32,401,286
Change in value of split-interest agreements	—	802,684	(217,923)	584,761
Other income	447,612	2,337,600	44,684	2,829,896
Total revenues, gains, and other support	<u>4,814,859</u>	<u>57,899,187</u>	<u>7,795,913</u>	<u>70,509,959</u>
Net assets released from restrictions/ redesignated by donor	48,083,091	(49,175,510)	1,092,419	—
Expenses:				
Support for University activities	47,141,383	—	—	47,141,383
General and administrative expenses	1,909,917	—	—	1,909,917
Fund-raising expenses	932,504	—	—	932,504
Total expenses	<u>49,983,804</u>	<u>—</u>	<u>—</u>	<u>49,983,804</u>
Change in net assets	2,914,146	8,723,677	8,888,332	20,526,155
Net assets, beginning of year	<u>4,806,645</u>	<u>130,827,278</u>	<u>150,198,558</u>	<u>285,832,481</u>
Net assets, end of year	\$ <u><u>7,720,791</u></u>	<u><u>139,550,955</u></u>	<u><u>159,086,890</u></u>	<u><u>306,358,636</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>9,766,691</u>	<u>41,965,682</u>	<u>6,012,952</u>	<u>57,745,325</u>
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	<u>32,967,095</u>	<u>—</u>	<u>—</u>	<u>32,967,095</u>
Change in net assets	7,038,487	6,974,116	10,765,627	24,778,230
Net assets (deficit), beginning of year	<u>(2,231,842)</u>	<u>123,853,162</u>	<u>139,432,931</u>	<u>261,054,251</u>
Net assets, end of year	\$ <u><u>4,806,645</u></u>	<u><u>130,827,278</u></u>	<u><u>150,198,558</u></u>	<u><u>285,832,481</u></u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 20,526,155	24,778,230
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	139,232	134,355
Permanently restricted contributions	(7,969,152)	(6,265,205)
Gifts in kind	(607,000)	(1,006,000)
Net realized and unrealized gains on investments	(32,401,286)	(20,754,806)
Changes in operating assets and liabilities:		
Other assets	(189,086)	610,056
Pledges receivable	92,793	3,933,472
Funds held for others	(265,698)	769,101
Beneficial interest in remainder trust	(802,684)	(780,994)
Liabilities under remainder trusts	214,559	199,133
Other liabilities	(3,601,401)	4,553,122
Net cash provided by (used in) operating activities	<u>(24,863,568)</u>	<u>6,170,464</u>
Cash flows from investing activities:		
Purchases of property and equipment	(31,781)	(40,230)
Proceeds from sale of property and equipment	847	1,104
Purchase of investments	(94,636,460)	(71,377,256)
Proceeds from sales and maturities of investments	<u>111,348,629</u>	<u>65,589,253</u>
Net cash provided by (used in) investing activities	<u>16,681,235</u>	<u>(5,827,129)</u>
Cash flows from financing activities:		
Permanently restricted contributions	6,510,625	5,210,707
Receipts under split-interest agreements	100,000	—
Payments to beneficiaries under remainder trusts	(412,707)	(362,229)
Net cash provided by financing activities	<u>6,197,918</u>	<u>4,848,478</u>
Net increase (decrease) in cash and cash equivalents	(1,984,415)	5,191,813
Cash and cash equivalents:		
Beginning of year	<u>8,862,840</u>	<u>3,671,027</u>
End of year	\$ <u><u>6,878,425</u></u>	\$ <u><u>8,862,840</u></u>
Supplemental noncash activity:		
Assumption of Campus Walk mortgage	\$ <u><u>—</u></u>	\$ <u><u>8,133,000</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2011 and 2010

(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.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation considers donor contributions to the various University schools and departments to be temporarily restricted as those University units have authority over expenditures. 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

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the present value of their future cash flows. The discounts on these amounts are computed using risk-free interest rates at the time of the pledge which are applicable to the years in which the pledges are scheduled to be 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, 2011 and 2010, such fees totaled approximately \$1,169,000 and \$1,046,000, respectively.

(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 Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011 and 2010, the Foundation 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 recognized as an organization exempt from federal income tax under Section 501(a) as an entity described in Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2011 and 2010 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.

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(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) 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 statement of financial position date of June 30, 2011 through October 20, 2011, which was the date the financial statements were available to be issued.

(j) 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, 2011, pledges mature at various dates through 2032 (approximately \$6,281,000 is due in fiscal year 2012, \$20,283,000 is due in total during the period including fiscal year 2013 through fiscal year 2017, and \$629,000 is due thereafter). 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). A summary of pledges receivable as of June 30, 2011 and 2010 is as follows:

	2011	2010
Temporarily restricted	\$ 16,540,406	16,844,606
Permanently restricted	10,652,243	9,283,732
	27,192,649	26,128,338
Allowances for doubtful pledges	(2,657,149)	(3,667,008)
Present value discounts (ranging from 3.0% to 6.5%)	(3,875,092)	(3,066,656)
	\$ 20,660,408	19,394,674

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Notes to Financial Statements

June 30, 2011 and 2010

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2011 and 2010:

	2011	2010	Liquidation period
Investment strategy:			
Fixed income:			
U.S. Government securities	\$ 252,182	3,261,600	Daily
Corporate bonds	13,544,457	13,152,172	Daily
Certificates of deposit	210,877	506,615	Annually
Other fixed income securities	71,263,910	96,644,979	Daily
Total fixed income	85,271,426	113,565,366	
Equities:			
Common stocks	19,578,095	18,638,471	Daily
Common stock funds	66,926,802	48,694,265	Daily
Mutual funds	18,284,389	14,760,020	Daily
Index funds	14,339,796	15,067,238	Daily
Total equities	119,129,082	97,159,994	
Hedge funds	64,855,088	29,897,621	Various ¹
Venture capital	8,099,937	7,319,029	Illiquid ²
Real estate:			
Real estate owned	5,578,849	5,146,849	Illiquid
Timber fund	13,291,764	12,706,931	Illiquid ³
Partnership interest	750,000	750,000	Illiquid ⁴
Total real estate	19,620,613	18,603,780	
Other short-term investments	2,741,630	12,981,826	Daily
Total investments	\$ 299,717,776	279,527,616	

¹ The majority of these hedge funds have liquidation terms that allow the Foundation to liquidate its 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.

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In accordance with ASU 2009-12, *Investments that can be Redeemed at Net 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, 2011 and 2010, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

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June 30, 2011 and 2010

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ —	252,182	—	252,182
Corporate bonds	—	13,544,457	—	13,544,457
Certificates of deposit	—	210,877	—	210,877
Other fixed income securities	70,580,766	683,144	—	71,263,910
Total fixed income	<u>70,580,766</u>	<u>14,690,660</u>	<u>—</u>	<u>85,271,426</u>
Equities:				
Common stocks	19,578,095	—	—	19,578,095
Common stock funds	66,926,802	—	—	66,926,802
Mutual funds	18,284,389	—	—	18,284,389
Index funds	14,339,796	—	—	14,339,796
Total equities	<u>119,129,082</u>	<u>—</u>	<u>—</u>	<u>119,129,082</u>
Hedge funds	—	64,855,088	—	64,855,088
Venture capital	—	—	8,099,937	8,099,937
Real estate:				
Real estate owned	—	—	5,578,849	5,578,849
Timber fund	—	—	13,291,764	13,291,764
Partnership interest	—	—	750,000	750,000
Total real estate	<u>—</u>	<u>—</u>	<u>19,620,613</u>	<u>19,620,613</u>
Other short-term investments	2,741,630	—	—	2,741,630
Total investments	<u>\$ 192,451,478</u>	<u>79,545,748</u>	<u>27,720,550</u>	<u>299,717,776</u>
Beneficial interest in remainder trust	\$ —	—	5,313,904	5,313,904

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Notes to Financial Statements

June 30, 2011 and 2010

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>94,330,700</u>	<u>19,234,666</u>	<u>—</u>	<u>113,565,366</u>
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	<u>97,159,994</u>	<u>—</u>	<u>—</u>	<u>97,159,994</u>
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	<u>—</u>	<u>—</u>	<u>18,603,780</u>	<u>18,603,780</u>
Other short-term investments	12,981,826	—	—	12,981,826
Total investments	<u>\$ 204,472,520</u>	<u>49,132,287</u>	<u>25,922,809</u>	<u>279,527,616</u>
Beneficial interest in remainder trust	\$ —	—	4,511,220	4,511,220

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.

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Notes to Financial Statements

June 30, 2011 and 2010

The following table includes a rollforward of the amounts for the year ended June 30, 2011 and 2010 for investments classified within Level 3:

	<u>Real estate</u>	<u>Venture capital</u>	<u>Beneficial interest in remainder trust</u>
Balance as of June 30, 2009	\$ 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
Net realized and unrealized gain (loss)	584,833	759,817	802,684
Net purchases (sales)	432,000	21,091	—
Balance as of June 30, 2011	\$ <u>19,620,613</u>	<u>8,099,937</u>	<u>5,313,904</u>

(6) Net Asset Classification of Endowment Funds

The Foundation has adopted *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* (ASC Topic 958-205). This standard 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 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

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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 the 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. However, no portion of the original gift value of the endowed assets will be allocated for spending.

Changes in donor-restricted endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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
Contributions and transfers to endowment	—	—	7,781,885	7,781,885
Appropriation for expenditures	—	(6,891,400)	—	(6,891,400)
Investment return:				
Investment income	—	5,483,836	—	5,483,836
Net appreciation (depreciation)	2,242,776	26,524,321	—	28,767,097
Donor-restricted endowment net assets (deficit), June 30, 2011	\$ (160,657)	63,652,290	155,672,880	219,164,513

Due to unfavorable market fluctuations, the Foundation has endowments that have fallen below the original gift value of the funds. At June 30, 2011 and 2010, the fair values of certain permanently restricted investments were below their original contribution by approximately \$161,000 and \$2,403,000, 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.

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(7) Life Insurance Policies

The Foundation has been gifted 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, 2011 and 2010 were \$737,000 and \$664,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(8) Charitable Trusts

The Foundation administered charitable remainder trusts with investments of approximately \$6,085,000 and \$5,501,000 as of June 30, 2011 and 2010, respectively, which 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 \$4,936,295 and \$4,356,502 as of June 30, 2011 and 2010, respectively. The discount rates used in these measurements range 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, 2011 and 2010:

	2011	2010
Land	\$ 300,000	300,000
Building and equipment	3,030,030	3,044,644
Total	3,330,030	3,344,644
Accumulated depreciation	(1,446,127)	(1,352,443)
Property and equipment, net	\$ 1,883,903	1,992,201

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 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 an amount equal to 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 periodic amounts that equal the

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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, 2011 and 2010 were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Academic and program support	\$ 32,457,007	32,401,864
Scholarship support	73,488,150	68,672,104
Faculty support	39,503,967	35,589,664
Library support	13,637,766	13,534,926
Total	<u>\$ 159,086,890</u>	<u>150,198,558</u>

The vast majority of temporarily restricted net assets at June 30, 2011 and 2010 were available for academic and program support.

(12) Funds Held for Others

The Foundation administered funds for others of \$20,570,386 and \$17,719,982 at June 30, 2011 and 2010, 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 statements of activities 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 2011 and 2010, the Foundation received approximately \$1,558,000 and \$1,922,000, respectively, for the University of Mississippi Alumni Association and \$16,265,000 and \$16,578,000, respectively, for the UMAA Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2011 and 2010 include approximately \$1,665,000 and \$1,869,000, respectively, to the University of Mississippi Alumni Association and \$16,333,000 and \$16,404,000, respectively, to the UMAA Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During fiscal years 2011 and 2010, the Foundation received approximately \$237,000 and \$208,000, respectively, from these organizations and made distributions to these organizations, at the organization's direction, of approximately \$516,000 and \$528,000, respectively.

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(13) Mississippi Common Fund Trust

Included in other liabilities are \$194,500 and \$1,378,966 at June 30, 2011 and 2010, respectively, related to the Mississippi Common Fund Trust. This 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.