THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
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 financial statements of The University of Mississippi Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Memphis, Tennessee
October 17, 2013

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	4,496,639	2,747,334
Pledges receivable, net		11,105,873	19,675,498
Investments		344,942,855	303,647,577
Beneficial interest in remainder trust		—	5,512,593
Property and equipment, net		3,088,339	3,200,638
Other assets		3,691,172	3,652,210
Total assets	$	367,324,878	338,435,850
Liabilities and Net Assets			
Funds held for others	$	21,485,622	19,642,394
Liabilities under remainder trusts and gift annuities		7,425,349	6,117,511
Other liabilities		4,243,198	7,656,969
Total liabilities		33,154,169	33,416,874
Net assets:			
Unrestricted		20,210,496	11,295,599
Temporarily restricted		134,997,987	123,377,256
Permanently restricted		178,962,226	170,346,121
Total net assets		334,170,709	305,018,976
Total liabilities and net assets	$	367,324,878	338,435,850

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, gifts and bequests	$ 220,490	20,600,662	6,560,592	27,381,744
Dividend and interest income	1,495,430	5,025,480	—	6,520,910
Net unrealized and realized gains on investments	307,968	24,304,299	—	24,612,267
Change in value of split-interest agreements	—	3,286,929	(333,890)	2,953,039
Other income	582,515	1,664,416	3,409	2,250,340
Total revenues, gains and other support	2,606,403	54,881,786	6,230,111	63,718,300
Net assets released from restrictions/ redesignated by donor	40,875,061	(43,261,055)	2,385,994	—
Expenses:				
Support for University activities	31,103,241	—	—	31,103,241
General and administrative expenses	2,293,562	—	—	2,293,562
Fund-raising expenses	1,169,764	—	—	1,169,764
Total expenses	34,566,567	—	—	34,566,567
Change in net assets	8,914,897	11,620,731	8,616,105	29,151,733
Net assets, beginning of year	11,295,599	123,377,256	170,346,121	305,018,976
Net assets, end of year	$ 20,210,496	134,997,987	178,962,226	334,170,709

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2012

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Contributions, gifts and bequests	$	6,815,062	20,411,955	8,446,108	35,673,125
Dividend and interest income		1,573,944	3,466,641	—	5,040,585
Net unrealized and realized losses on investments		(415,775)	(7,406,813)	—	(7,822,588)
Change in value of split-interest agreements		—	198,689	284,912	483,601
Other income		480,290	2,273,022	14,117	2,767,429
Total revenues, gains and other support		8,453,521	18,943,494	8,745,137	36,142,152
Net assets released from restrictions/ redesignated by donor		32,603,099	(35,117,193)	2,514,094	—
Expenses:					
Support for University activities		34,038,290	—	—	34,038,290
General and administrative expenses		2,165,060	—	—	2,165,060
Fund-raising expenses		1,278,462	—	—	1,278,462
Total expenses		37,481,812	—	—	37,481,812
Change in net assets		3,574,808	(16,173,699)	11,259,231	(1,339,660)
Net assets, beginning of year		7,720,791	139,550,955	159,086,890	306,358,636
Net assets, end of year	$	11,295,599	123,377,256	170,346,121	305,018,976

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 29,151,733	(1,339,660)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	189,570	141,020
Permanently restricted contributions	(12,717,791)	(8,446,108)
Gifts in kind	(129,980)	(4,016,393)
Net realized and unrealized (gains) losses on investments	(24,612,267)	7,822,588
Provision for uncollectible pledges	3,908,219	(467,088)
Changes in operating assets and liabilities:		
Other assets	(38,997)	178,225
Pledges receivable	4,661,406	1,451,998
Funds held for others	(410,963)	(475,223)
Beneficial interest in remainder trust	5,512,593	(198,689)
Liabilities under remainder trusts	1,383,063	1,738,633
Other liabilities	(3,413,773)	3,846,435
Net cash provided by operating activities	3,482,813	235,738
Cash flows from investing activities:		
Purchases of property and equipment	(77,271)	(50,362)
Purchase of investments	(117,428,639)	(109,815,411)
Proceeds from sales and maturities of investments	103,841,870	97,605,558
Proceeds from sale of campus walk	—	8,133,000
Net cash used in investing activities	(13,664,040)	(4,127,215)
Cash flows from financing activities:		
Permanently restricted contributions	8,917,791	4,446,108
Receipts under split-interest agreements	3,800,000	4,000,000
Payments to beneficiaries under remainder trusts	(787,259)	(552,722)
Payment of mortgage	—	(8,133,000)
Net cash provided by (used in) financing activities	11,930,532	(239,614)
Net increase (decrease) in cash and cash equivalents	1,749,305	(4,131,091)
Cash and cash equivalents:		
Beginning of year	2,747,334	6,878,425
End of year	$ 4,496,639	2,747,334

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 various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is 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 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 revenue. An allowance for uncollectible pledges 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 0.5% on certain endowment funds. For the fiscal years ended June 30, 2013 and 2012, such fees totaled approximately $1,300,000 and $1,283,000, 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. The Foundation received marketable securities by gift, which were immediately converted to cash and are not reflected in cash flows from investing activities. For the fiscal years ended June 30, 2013 and 2012, such gifts totaled approximately $5,330,000 and $2,919,000, respectively.

(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, 2013 and 2012, 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 appraised 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, 2013 and 2012 for cash and cash equivalents, pledges receivable, funds held for others, liabilities under remainder trusts and other liabilities and at June 30, 2012 for the beneficial interest in remainder trust 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 projected beneficiary payments adjusted accordingly. Gifts subject to split-interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

Previously, the Foundation was named as the beneficiary of one externally managed charitable remainder trust. This trust was originally recorded and carried at the present value of the estimated future cash receipts from the assets of the trust. In fiscal 2013, this trust matured and the proceeds were distributed to the Foundation.

(i) Subsequent Events

In connection with the preparation of the financial statements and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 855, *Subsequent Events*, the Foundation evaluated subsequent events after the statement of financial position date of June 30, 2013 through October 17, 2013, which was the date the financial statements were available to be issued.

(j) Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to current year presentation.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2013, pledges were scheduled to mature at various dates through 2034 (approximately $6,539,000 is due in fiscal year 2014, $11,926,000 is due in total during the period including fiscal year 2015 through fiscal year 2019, and $504,000 is due thereafter). At June 30, 2012, pledges were scheduled to mature at various dates through 2032 (approximately $9,008,000 was due in fiscal year 2013, $14,921,000 was due in total during the period including fiscal year 2014 through fiscal year 2018, and $1,037,000 was due thereafter). A summary of pledges receivable as of June 30, 2013 and 2012 is as follows:

		2013	2012
Temporarily restricted	$	12,010,510	14,371,763
Permanently restricted		6,958,428	10,594,102
		18,968,938	24,965,865
Allowances for uncollectible pledges		(5,370,295)	(1,874,340)
Present value discounts (ranging from 1.6% to 6.1%)		(2,492,770)	(3,416,027)
	$	11,105,873	19,675,498

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2013 and 2012:

	2013	2012	Liquidation period
Investment strategy:			
Fixed income:			
U.S. government securities	$ 1,551,274	216,291	Daily
Corporate bonds	19,639,188	20,640,572	Daily
Certificates of deposit	—	106,536	Annually
Other fixed income securities	71,798,645	65,141,714	Daily
Total fixed income	92,989,107	86,105,113	
Equities:			
Common stocks	3,321,685	20,265,279	Daily
Common stock funds	31,444,225	42,039,739	Daily
Mutual funds	8,489,994	20,066,215	Daily
Index funds	69,076,899	29,944,825	Daily
Total equities	112,332,803	112,316,058	
Hedge funds	110,129,082	77,133,993	Various[1]
Venture capital	9,423,882	9,373,029	Illiquid[2]
Real estate and other investments:			
Real estate owned and other investments	4,943,308	5,072,742	Illiquid
Timber fund	11,890,742	11,742,955	Illiquid[3]
Partnership interest	750,000	750,000	Illiquid[4]
Total real estate	17,584,050	17,565,697	
Other short-term investments	2,483,931	1,153,687	Daily
Total investments	$ 344,942,855	303,647,577	

[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. The investment would be liquidated upon the sale of the 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: 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. These assumptions are based on audited financial statements provided by the general partner of the investment combined with additional third party due diligence.

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 Accounting Standards Update (ASU) 2009-12, *Investments that can be Redeemed at Net Asset Value on the Measurement Date or in the Near Term*, such investments 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, 2013 and 2012, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2013.

	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. government securities	$ —	1,551,274	—	1,551,274
Corporate bonds	—	19,639,188	—	19,639,188
Certificates of deposit	—	—	—	—
Other fixed income securities	61,984,177	9,814,468	—	71,798,645
Total fixed income	61,984,177	31,004,930	—	92,989,107
Equities:				
Common stocks	3,321,685	—	—	3,321,685
Common stock funds	31,444,225	—	—	31,444,225
Mutual funds	8,489,994	—	—	8,489,994
Index funds	69,076,899	—	—	69,076,899
Total equities	112,332,803	—	—	112,332,803
Hedge funds	—	96,451,153	13,677,929	110,129,082
Venture capital	—	—	9,423,882	9,423,882
Real estate:				
Real estate owned	—	—	4,943,308	4,943,308
Timber fund	—	—	11,890,742	11,890,742
Partnership interest	—	—	750,000	750,000
Total real estate	—	—	17,584,050	17,584,050
Other short-term investments	2,483,931	—	—	2,483,931
Total investments	$ 176,800,911	127,456,083	40,685,861	344,942,855
Beneficial interest in remainder trust	$ —	—	—	—

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. government securities	$ —	216,291	—	216,291
Corporate bonds	—	20,640,572	—	20,640,572
Certificates of deposit	—	106,536	—	106,536
Other fixed income securities	57,926,077	7,215,637	—	65,141,714
Total fixed income	57,926,077	28,179,036	—	86,105,113
Equities:				
Common stocks	20,265,279	—	—	20,265,279
Common stock funds	42,039,739	—	—	42,039,739
Mutual funds	20,066,215	—	—	20,066,215
Index funds	29,944,825	—	—	29,944,825
Total equities	112,316,058	—	—	112,316,058
Hedge funds	—	71,652,761	5,481,232	77,133,993
Venture capital	—	—	9,373,029	9,373,029
Real estate:				
Real estate owned	—	—	5,072,742	5,072,742
Timber fund	—	—	11,742,955	11,742,955
Partnership interest	—	—	750,000	750,000
Total real estate	—	—	17,565,697	17,565,697
Other short-term investments	1,153,687	—	—	1,153,687
Total investments	$ 171,395,822	99,831,797	32,419,958	303,647,577
Beneficial interest in remainder trust	$ —	—	5,512,593	5,512,593

During 2013, the Foundation identified $7,215,637 of fixed income securities classified in 2012 as Level 1 securities which should have been classified as Level 2 securities and $5,481,232 of hedge fund investments classified in 2012 as Level 2 securities which should have been reported as Level 3 securities. These errors, which management concluded were immaterial in relation to the financial statements taken as a whole, were corrected in the presentation above.

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 a 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 years ended June 30, 2013 and 2012 for investments classified within Level 3:

		Real estate	Venture capital	Beneficial interest in remainder trust	Hedge funds
Balance as of June 30, 2011	$	19,620,613	8,099,937	5,313,904	3,347,088
Net realized and unrealized gain (loss)		(1,908,329)	45,202	198,689	108,403
Net purchases (sales)		(146,587)	1,227,890	—	2,025,741
Balance as of June 30, 2012		17,565,697	9,373,029	5,512,593	5,481,232
Net realized and unrealized gain (loss)		173,243	45,977	3,286,929	1,467,970
Net purchases (sales)		(154,890)	4,876	(8,799,522)	6,728,727
Balance as of June 30, 2013	$	17,584,050	9,423,882	—	13,677,929

Hedge funds include long/short equity funds, fixed income funds and multi-strategy funds. These funds generally invest directly into corporate equity and debt securities. Venture capital investments are comprised of funds primarily invested in startup entities with high growth potential. Real estate investments consist of funds invested directly or indirectly in real property. The table below represents a summary of the fair value, unfunded commitments, eligible redemption frequency and expected life of the respective investments as of June 30, 2013:

Investment		Fair value	Unfunded commitments	Redemption frequency (if eligible)	Redemption notice period	Expected life span of investment
Hedge funds (Level 2)	$	96,451,152	—	At least quarterly	30 – 90 days	Indefinite
Hedge funds (Level 3)		13,677,929	7,775,503	No redemption feature	None	7 years
Venture capital		9,423,882	6,830,500	No redemption feature	None	7 to 12 years
Real estate:						
Timber fund		11,890,742	—	No redemption feature	None	10 years
Real estate		5,693,308	—	No redemption feature	None	Indefinite

(6) Net Asset Classification of Endowment Funds

The Foundation has adopted ASC Topic 958-205, *Enhanced Disclosures for All Endowment Funds, and 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)*. 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 adopted UPMIFA effective July 1, 2012. 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 gift. 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 market returns. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. The primary performance objective of 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 for the endowed purpose is calculated based on a percentage of a 3-year moving average of the endowment's market value. The objective is to provide relatively stable spending allocations. However, no portion of the original gift value of the endowed assets will be allocated for spending.

Changes in donor-restricted endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment net assets (deficit), June 30, 2011	$ (160,657)	63,652,290	155,672,880	219,164,513
Contributions and transfers to endowment	—	—	7,797,504	7,797,504
Appropriation for expenditures	—	(7,337,645)	—	(7,337,645)
Investment return:				
Investment income	—	3,671,628	—	3,671,628
Net depreciation	(245,080)	(8,447,807)	—	(8,692,887)
Donor-restricted endowment net assets (deficit), June 30, 2012	(405,737)	51,538,466	163,470,384	214,603,113
Contributions and transfers to endowment	—	—	19,214,444	19,214,444
Appropriation for expenditures	—	(8,209,170)	—	(8,209,170)
Investment return:				
Investment income	—	4,456,379	—	4,456,379
Net appreciation	223,676	21,018,565	—	21,242,241
Donor-restricted endowment net assets (deficit), June 30, 2013	$ (182,061)	68,804,240	182,684,828	251,307,007

Due to past unfavorable market fluctuations, the Foundation has endowments that have fallen below the original gift value of the funds. At June 30, 2013 and 2012, the fair values of certain permanently restricted investments were below their original contribution by approximately $182,000 and $406,000, 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 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, 2013 and 2012 were $686,000 and $736,100, respectively, which are reflected as other assets in the accompanying statements of financial position.

(8) Charitable Trusts and Gift Annuities

The Foundation administered charitable remainder trusts with investments of approximately $8,133,000 and $5,345,000 as of June 30, 2013 and 2012, respectively, which are reported as investments on the statements of financial position. The cash contributed to purchase gift annuities is reported within investments on the statement 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 these trusts and gift annuities totaled $7,425,349 and $6,117,511 as of June 30, 2013 and 2012, respectively. The discount rates used in these measurements range from 4.78% 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, 2013 and 2012:

		2013	2012
Land	$	300,000	300,000
Building and equipment		2,858,636	2,790,271
Furniture and fixtures		1,697,514	1,697,514
Total		4,856,150	4,787,785
Accumulated depreciation		(1,767,811)	(1,587,147)
Property and equipment, net	$	3,088,339	3,200,638

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, which was paid by the University. For 2011, the related asset and liability were recorded in the statements of financial position. During the year ended June 30, 2012, the University exercised its option to purchase the complex from the Foundation for an amount equal to the outstanding mortgage indebtedness. The transfer of Campus Walk to the University had no impact on the statement of activities.

(11) Gifts in Kind

During fiscal year 2013 and 2012, a donor gifted the Foundation with oriental rugs having an appraised value of $220,490 and $6,815,062 respectively. During the years ended June 30, 2013 and 2012, the Foundation transferred $220,490 and $2,798,669 of these rugs to the University for use on campus. The remaining rugs are held by the Foundation and presented in the statement of financial position in property and equipment and other assets. As of June 30, 2013 and 2012, property and equipment includes

$1,407,393 of rugs placed in service within several Foundation properties. As of June 30, 2013 and 2012, other assets includes $2,609,000 of oriental rugs, which the Foundation intends to sell in 2014.

(12) Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 were restricted for the following purposes:

		2013	2012
Academic and program support	$	34,651,852	33,539,980
Scholarship support		79,587,143	76,411,592
Faculty support		52,287,041	47,129,077
Library support		12,436,190	13,265,472
Total	$	178,962,226	170,346,121

The vast majority of temporarily restricted net assets at June 30, 2013 and 2012 were available for academic and program support.

(13) Funds Held for Others

The Foundation administered funds for others of $21,485,622 and $19,642,394 at June 30, 2013 and 2012, 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 2013 and 2012, the Foundation received approximately $750,000 and $1,020,000, respectively, for the University of Mississippi Alumni Association and $25,665,000 and $19,069,000, respectively, for the Ole Miss Athletics Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2013 and 2012 include approximately $809,000 and $936,000, respectively, to the University of Mississippi Alumni Association and $25,896,000 and $19,104,000, respectively, to the Ole Miss Athletics Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During fiscal years 2013 and 2012, the Foundation received approximately $150,000 and $500, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately $653,000 and $699,000, respectively.

(14) Mississippi Common Fund Trust

Included in other liabilities are $454,000 and $1,433,000 at June 30, 2013 and 2012, 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.