THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2012 and 2011

(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 statements of financial position of The University of Mississippi Foundation (the Foundation) as of June 30, 2012 and 2011, 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 Foundation'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 University of Mississippi Foundation as of June 30, 2012 and 2011, 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 16, 2012

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	2,747,334	6,878,425
Pledges receivable, net		19,675,498	20,660,408
Investments		303,647,577	299,717,776
Beneficial interest in remainder trust		5,512,593	5,313,904
Property and equipment, net		3,200,638	1,883,903
Campus Walk		—	9,200,000
Other assets		3,652,210	1,221,435
Total assets	$	338,435,850	344,875,851
Liabilities and Net Assets			
Funds held for others	$	19,642,394	20,570,386
Liabilities under remainder trusts and gift annuity		6,117,511	4,936,295
Campus Walk		—	9,200,000
Other liabilities		7,656,969	3,810,534
Total liabilities		33,416,874	38,517,215
Net assets:			
Unrestricted		11,295,599	7,720,791
Temporarily restricted		123,377,256	139,550,955
Permanently restricted		170,346,121	159,086,890
Total net assets		305,018,976	306,358,636
Total liabilities and net assets	$	338,435,850	344,875,851

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

Statement of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	4,814,859	57,899,187	7,795,913	70,509,959
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	49,983,804	—	—	49,983,804
Change in net assets	2,914,146	8,723,677	8,888,332	20,526,155
Net assets, beginning of year	4,806,645	130,827,278	150,198,558	285,832,481
Net assets, end of year	$ 7,720,791	139,550,955	159,086,890	306,358,636

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (1,339,660)	20,526,155
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	141,020	139,232
Permanently restricted contributions	(8,446,108)	(7,969,152)
Gifts in kind	(4,016,393)	(607,000)
Net realized and unrealized (gains) losses on investments	7,822,588	(32,401,286)
Changes in operating assets and liabilities:		
Other assets	178,225	(189,086)
Pledges receivable	1,651,547	92,793
Funds held for others	(475,223)	(265,698)
Beneficial interest in remainder trust	(198,689)	(802,684)
Liabilities under remainder trusts	1,738,633	214,559
Other liabilities	3,846,435	(3,601,401)
Net cash provided by (used in) operating activities	902,375	(24,863,568)
Cash flows from investing activities:		
Purchases of property and equipment	(50,362)	(31,781)
Proceeds from sale of property and equipment	—	847
Purchase of investments	(109,815,411)	(94,636,460)
Proceeds from sales and maturities of investments	97,605,558	111,348,629
Proceeds from sale of campus walk	8,133,000	—
Net cash provided by (used in) investing activities	(4,127,215)	16,681,235
Cash flows from financing activities:		
Permanently restricted contributions	3,779,471	6,510,625
Receipts under split-interest agreements	4,000,000	100,000
Payments to beneficiaries under remainder trusts	(552,722)	(412,707)
Payment of mortgage	(8,133,000)	—
Net cash provided by (used in) financing activities	(906,251)	6,197,918
Net decrease in cash and cash equivalents	(4,131,091)	(1,984,415)
Cash and cash equivalents:		
Beginning of year	6,878,425	8,862,840
End of year	$ 2,747,334	6,878,425

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

(Continued)

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 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, 2012 and 2011, such fees totaled approximately $1,283,000 and $1,169,000, 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, 2012 and 2011, such gifts totaled approximately $2,919,000 and $3,438,000, 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, 2012 and 2011, 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, 2012 and 2011 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 projected beneficiary payments adjusted accordingly. Gifts 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 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, 2012 through October 16, 2012, which was the date the financial statements were available to be issued.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2012, pledges were scheduled to mature at various dates through 2032 (approximately $9,008,000 is due in fiscal year 2013, $14,921,000 is due in total during the period including fiscal year 2014 through fiscal year 2018, and $1,037,000 is due thereafter). At June 30, 2011, pledges were scheduled to mature at various dates through 2032 (approximately $6,281,000 was due in fiscal year 2012, $20,283,000 was due in total during the period including fiscal year 2013 through fiscal year 2017, and $629,000 was due thereafter). A summary of pledges receivable as of June 30, 2012 and 2011 is as follows:

		2012	2011
Temporarily restricted	$	14,371,763	16,540,406
Permanently restricted		10,594,102	10,652,243
		24,965,865	27,192,649
Allowances for uncollectible pledges		(1,874,340)	(2,657,149)
Present value discounts (ranging from 1.6% to 6.5%)		(3,416,027)	(3,875,092)
	$	19,675,498	20,660,408

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2012 and 2011:

	2012	2011	Liquidation period
Investment strategy:			
Fixed income:			
U.S. government securities	$ 216,291	252,182	Daily
Corporate bonds	20,640,572	13,544,457	Daily
Certificates of deposit	106,536	210,877	Annually
Other fixed income securities	65,141,714	71,263,910	Daily
Total fixed income	86,105,113	85,271,426	
Equities:			
Common stocks	20,265,279	19,578,095	Daily
Common stock funds	42,039,739	66,926,802	Daily
Mutual funds	20,066,215	18,284,389	Daily
Index funds	29,944,825	14,339,796	Daily
Total equities	112,316,058	119,129,082	
Hedge funds	77,133,993	64,855,088	Various[1]
Venture capital	9,373,029	8,099,937	Illiquid[2]
Real estate and other investments:			
Real estate owned and other investments	5,072,742	5,578,849	Illiquid
Timber fund	11,742,955	13,291,764	Illiquid[3]
Partnership interest	750,000	750,000	Illiquid[4]
Total real estate	17,565,697	19,620,613	
Other short-term investments	1,153,687	2,741,630	Daily
Total investments	$ 303,647,577	299,717,776	

[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 represents 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.

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, 2012 and 2011, 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, 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	65,141,714	—	—	65,141,714
Total fixed income	65,141,714	20,963,399	—	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	—	77,133,993	—	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	$ 178,611,459	98,097,392	26,938,726	303,647,577
Beneficial interest in remainder trust	$ —	—	5,512,593	5,512,593

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

	Level 1	Level 2	Level 3	Total
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	70,580,766	14,690,660	—	85,271,426
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	119,129,082	—	—	119,129,082
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	—	—	19,620,613	19,620,613
Other short-term investments	2,741,630	—	—	2,741,630
Total investments	$ 192,451,478	79,545,748	27,720,550	299,717,776
Beneficial interest in remainder trust	$ —	—	5,313,904	5,313,904

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, 2012 and 2011 for investments classified within Level 3:

		Real estate	Venture capital	Beneficial interest in remainder trust
Balance as of June 30, 2010	$	18,603,780	7,319,029	4,511,220
Net realized and unrealized gain		584,833	759,817	802,684
Net purchases (sales)		432,000	21,091	—
Balance as of June 30, 2011		19,620,613	8,099,937	5,313,904
Net realized and unrealized gain (loss)		(1,908,329)	45,202	198,689
Net purchases (sales)		(146,587)	1,227,890	—
Balance as of June 30, 2012	$	17,565,697	9,373,029	5,512,593

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. The Foundation is currently evaluating the implications of ASU 2011-04 and its impact on the financial statements.

(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 4.5% 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.

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Changes in donor-restricted endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	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
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

Due to unfavorable market fluctuations, the Foundation has endowments that have fallen below the original gift value of the funds. At June 30, 2012 and 2011, the fair values of certain permanently restricted investments were below their original contribution by approximately $406,000 and $161,000, 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, 2012 and 2011 were $736,100 and $737,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(8) Charitable Trusts and Gift Annuity

The Foundation administered charitable remainder trusts with investments of approximately $5,345,000 and $6,085,000 as of June 30, 2012 and 2011, respectively, which are reported as investments on the statements of financial position. During the current year, the Foundation also administered a gift annuity with a total investment of $3,967,000, which is reported as 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 remainder trusts totaled $6,117,511 and $4,936,295 as of June 30, 2012 and 2011, 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, 2012 and 2011:

		2012	2011
Land	$	300,000	300,000
Building and equipment		2,790,271	2,739,909
Furniture and fixtures		1,697,514	290,121
Total		4,787,785	3,330,030
Accumulated depreciation		(1,587,147)	(1,446,127)
Property and equipment, net	$	3,200,638	1,883,903

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 are recorded in the statements of financial position. During the current year, 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 2012, a donor gifted the Foundation with oriental rugs having an appraised value of $6,815,062. The Foundation transferred $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. Property and equipment includes $1,407,393 of rugs placed in service within several Foundation properties. Other assets include $2,609,000 of oriental rugs, which the

Foundation intends to sell in 2014. This transaction is reflected in the accompanying statements of cash flows.

(12) Net Assets

Permanently restricted net assets at June 30, 2012 and 2011 were available for the following purposes:

		2012	2011
Academic and program support	$	33,539,980	32,457,007
Scholarship support		76,411,592	73,488,150
Faculty support		47,129,077	39,503,967
Library support		13,265,472	13,637,766
Total	$	170,346,121	159,086,890

The vast majority of temporarily restricted net assets at June 30, 2012 and 2011 were available for academic and program support.

(13) Funds Held for Others

The Foundation administered funds for others of $19,642,394 and $20,570,386 at June 30, 2012 and 2011, 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 2012 and 2011, the Foundation received approximately $1,020,000 and $1,558,000, respectively, for the University of Mississippi Alumni Association and $19,069,000 and $16,265,000, respectively, for the University of Mississippi Athletic Association Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2012 and 2011 include approximately $936,000 and $1,665,000, respectively, to the University of Mississippi Alumni Association and $19,104,028 and $16,333,000, respectively, to the University of Mississippi Athletic Association Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During fiscal years 2012 and 2011, the Foundation received approximately $500 and $237,000, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately $699,000 and $516,000, respectively.

(14) Mississippi Common Fund Trust

Included in other liabilities are $1,433,000 and $194,500 at June 30, 2012 and 2011, 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.