



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 900, Morgan Keegan Tower
Fifty North Front Street
Memphis, TN 38103

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, 2008 and 2007, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 15, 2008

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 8,778,262	3,066,873
Pledges receivable, less allowance for doubtful pledges of \$7,481,928 in 2008 and \$2,705,849 in 2007	22,882,931	26,503,327
Investments	291,801,578	316,754,395
Beneficial interest in remainder trust	3,417,765	3,211,401
Other assets	1,530,963	1,574,873
Property and equipment, net	2,944,631	2,929,893
Total assets	\$ <u>331,356,130</u>	<u>354,040,762</u>
Liabilities and Net Assets		
Funds held for others	\$ 16,282,368	18,862,647
Liabilities under remainder trusts	5,978,882	4,321,700
Other liabilities	5,265,766	12,234,974
Total liabilities	<u>27,527,016</u>	<u>35,419,321</u>
Net assets:		
Unrestricted	6,192,311	9,206,732
Temporarily restricted	167,793,676	182,023,785
Permanently restricted	129,843,127	127,390,924
Total net assets	<u>303,829,114</u>	<u>318,621,441</u>
Total liabilities and net assets	\$ <u>331,356,130</u>	<u>354,040,762</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts, and bequests	\$ —	27,793,553	2,443,112	30,236,665
Dividend and interest income	1,538,908	11,814,635	—	13,353,543
Net unrealized and realized losses on investments	(1,108,907)	(28,297,412)	—	(29,406,319)
Change in value of split interest agreements	—	206,364	(359,375)	(153,011)
Other income	1,830,495	1,669,125	5,839	3,505,459
Total revenues, gains, and other support	<u>2,260,496</u>	<u>13,186,265</u>	<u>2,089,576</u>	<u>17,536,337</u>
Net assets released from restrictions/ redesignated by donor	27,053,747	(27,416,374)	362,627	—
Expenses:				
Support for University activities	29,222,192	—	—	29,222,192
General and administrative expenses	1,691,055	—	—	1,691,055
Fund-raising expenses	1,415,417	—	—	1,415,417
Total expenses	<u>32,328,664</u>	<u>—</u>	<u>—</u>	<u>32,328,664</u>
Change in net assets	(3,014,421)	(14,230,109)	2,452,203	(14,792,327)
Net assets, beginning of year	<u>9,206,732</u>	<u>182,023,785</u>	<u>127,390,924</u>	<u>318,621,441</u>
Net assets, end of year	\$ <u><u>6,192,311</u></u>	<u><u>167,793,676</u></u>	<u><u>129,843,127</u></u>	<u><u>303,829,114</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts, and bequests	\$ —	20,703,499	4,973,711	25,677,210
Dividend and interest income	1,248,351	9,599,228	—	10,847,579
Net unrealized and realized gains on investments	661,963	29,488,645	—	30,150,608
Change in value of split interest agreements	—	1,552,317	(262,988)	1,289,329
Transfer from UMMC Alumni Association	—	6,838,640	3,157,523	9,996,163
Other income	1,613,735	1,480,953	94,169	3,188,857
Total revenues, gains, and other support	<u>3,524,049</u>	<u>69,663,282</u>	<u>7,962,415</u>	<u>81,149,746</u>
Net assets released from restrictions/ redesignated by donor	30,944,193	(32,185,897)	1,241,704	—
Expenses:				
Support for University activities	29,834,848	—	—	29,834,848
General and administrative expenses	1,935,296	—	—	1,935,296
Fund-raising expenses	1,387,192	—	—	1,387,192
Total expenses	<u>33,157,336</u>	<u>—</u>	<u>—</u>	<u>33,157,336</u>
Change in net assets	<u>1,310,906</u>	<u>37,477,385</u>	<u>9,204,119</u>	<u>47,992,410</u>
Net assets, beginning of year (as restated)	7,895,826	144,546,400	118,186,805	270,629,031
Net assets, end of year	\$ <u>9,206,732</u>	<u>182,023,785</u>	<u>127,390,924</u>	<u>318,621,441</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (14,792,327)	47,992,410
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	205,929	197,012
Permanently restricted contributions	(1,378,649)	(4,973,711)
Contributions of real estate	(2,727,500)	(1,700,000)
Non-cash transfers to University	—	911,555
Transfer from UMMC Alumni Association	—	(9,996,163)
Net realized and unrealized losses (gains) on investments	29,406,319	(30,150,608)
Changes in operating assets and liabilities:		
Other assets	43,910	309,816
Pledges receivable	(599,715)	(856,635)
Funds held for others	(3,326,239)	1,293,744
Beneficial interest in remainder trust	(206,364)	(1,552,317)
Liabilities under remainder trusts	3,817,616	293,130
Other liabilities	(6,969,208)	8,379,066
Net cash provided by operating activities	<u>3,473,772</u>	<u>10,147,299</u>
Cash flows from investing activities:		
Purchases of property and equipment	(220,667)	(16,353)
Purchases of Foundation investments	(42,239,815)	(35,722,730)
Proceeds from sales and maturities of Foundation investments	<u>38,532,273</u>	<u>17,006,860</u>
Net cash used in investing activities	<u>(3,928,209)</u>	<u>(18,732,223)</u>
Cash flows from financing activities:		
Permanently restricted contributions	5,598,760	5,053,789
Receipts under split interest agreements	1,000,000	374,453
Payments to beneficiaries under remainder trusts	<u>(432,934)</u>	<u>(276,009)</u>
Net cash provided by financing activities	<u>6,165,826</u>	<u>5,152,233</u>
Net increase (decrease) in cash and cash equivalents	5,711,389	(3,432,691)
Cash and cash equivalents:		
Beginning of year	<u>3,066,873</u>	<u>6,499,564</u>
End of year	\$ <u><u>8,778,262</u></u>	\$ <u><u>3,066,873</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2008 and 2007

(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 value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's financial statements.

(b) *Donor-Imposed Restrictions*

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

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

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

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

(c) *Revenue Recognition*

The Foundation generally recognizes gifts as revenue when notified of an unconditional promise to give. Unconditional promises to give that are expected to be collected in future years are reported at the present value of their future cash flows. The discounts on these amounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of the

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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 each year.

The Foundation earns a management fee of one-half of one percent on certain endowment funds. For the fiscal years ended June 30, 2008 and 2007, such fees totaled approximately \$1,413,000 and \$1,226,000, respectively, and were recorded as other income and reflected within unrestricted net assets.

(d) *Cash and Cash Equivalents*

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

(e) *Investments*

Investments are recorded at fair value. The fair values of all investments other than real estate and partnership and membership interests (which include certain private equity investments and hedge funds) are based on quoted market prices. Since partnership and member interests do not have readily ascertainable fair values and may be subject to withdrawal restrictions, the Foundation values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. The Foundation reviews and evaluates such valuations and believes that the carrying amount of its partnership and member interests is a reasonable estimate of fair value. 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 reflected in the accompanying statements of activities based on restrictions put in place by the donor.

At June 30, 2008 and 2007, the fair values of certain permanently restricted investments were below their original contribution by approximately \$472,000 and \$200, respectively and these deficiencies have been recorded in unrestricted net assets.

(f) *Tax Status*

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

(g) *Fair Value of Financial Instruments*

The carrying amounts at June 30, 2008 and 2007 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) Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (Statement No. 157). Statement No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of Statement No. 157 are effective for fiscal years beginning after November 15, 2007. The Foundation will adopt the provisions of Statement No. 157 for its fiscal year beginning July 1, 2008. The Foundation is currently evaluating the impact of the provisions of Statement No. 157 on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (Statement No. 159). Statement No. 159 gives companies the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in changes in net assets at each subsequent reporting date. Statement No. 159 is effective for fiscal years beginning after November 15, 2007. The Foundation will adopt the provisions of Statement No. 159 for its fiscal year beginning July 1, 2008. The Foundation is currently evaluating the impact of the provisions of Statement No. 159 on its financial statements.

The FASB has issued FASB Staff Position (FSP) SFAS No. 117-1, *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* which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and expands disclosures about endowment funds (both donor-restricted and board designated endowment funds), regardless of whether an organization is subject to UPMIFA. FSP SFAS No. 117-1 is effective for fiscal years ending after December 31, 2008. The Foundation is currently evaluating the impact of the provisions of FSP SFAS No. 117-1 on its financial statements.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2008, pledges mature at various dates through 2029 (approximately \$9,136,000 is due in fiscal year 2009,

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\$23,245,000 is due in total during the period including fiscal year 2010 through fiscal year 2014, and \$5,352,000 is due thereafter). At June 30, 2007, pledges mature at various dates through 2028 (approximately \$6,416,000 is due in fiscal year 2008, \$23,851,000 is due in total during the period including fiscal year 2009 through fiscal year 2013, and \$8,257,000 is due thereafter.) A summary of pledges receivable as of June 30, 2008 and 2007 follows:

	2008	2007
Temporarily restricted	\$ 26,865,432	27,184,072
Permanently restricted	10,867,191	11,340,786
	37,732,623	38,524,858
Allowances for doubtful pledges	(7,481,928)	(2,705,849)
Present value discount (ranging from 3.3% to 6.1%)	(7,367,764)	(9,315,682)
	\$ 22,882,931	26,503,327

(4) Investments

The Foundation's investments consist of the following at June 30, 2008 and 2007:

	2008	2007
U. S. Government securities	\$ 647,626	1,142,163
Corporate bonds	4,679,491	3,726,056
Certificates of deposit	284,451	286,863
Other short-term investments	14,211,342	14,286,245
Other fixed income securities	84,558,891	83,181,563
Equity securities	143,271,349	178,269,997
Real estate	6,958,299	6,029,679
Partnership and member interests	37,190,129	29,831,829
	\$ 291,801,578	316,754,395

(5) Life Insurance Policies

The Foundation has obtained life insurance policies for which it has been named owner and beneficiary. The face amounts of life insurance policies in excess of cash surrender values held by the Foundation are deferred and recognized as revenue only when collected. The cash surrender value amounts of such policies as of June 30, 2008 and 2007 were \$1,367,000 and \$1,328,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(6) Charitable Trusts

The Foundation administered charitable remainder trusts with investments of approximately \$6,726,000 and \$5,041,000 as of June 30, 2008 and 2007, respectively and are reported as investments on the statements of financial position. Pursuant to the trust agreements, specified amounts of income from the trust's assets must be distributed to the income beneficiaries each year. Liabilities under remainder trusts totaled \$5,978,882 and \$4,321,700 as of June 30, 2008 and 2007, respectively. The discount rates used in this measurement range from 5.25% to 6.20%. The remainder of the income and the assets will become the

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property of the Foundation at a time designated in the trust agreements, usually upon the death of the income beneficiary.

(7) Property and Equipment

Property and equipment consist of the following at June 30, 2008 and 2007:

	2008	2007
Land	\$ 665,000	665,000
Building and equipment	3,468,271	3,247,604
Total	4,133,271	3,912,604
Accumulated depreciation	(1,188,640)	(982,711)
Property and equipment, net	\$ 2,944,631	2,929,893

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.

During fiscal year 2007, the Foundation contributed furniture totaling \$76,555 to the University.

(8) Net Assets

Permanently restricted net assets at June 30, 2008 and 2007 were available for the following purposes:

	2008	2007
Academic and program support	\$ 28,333,715	28,768,230
Scholarship support	59,878,745	56,934,336
Faculty support	28,632,139	28,067,662
Library support	12,998,528	13,620,696
Total	\$ 129,843,127	127,390,924

The vast majority of temporarily restricted net assets at June 30, 2008 and 2007 were available for academic and program support.

(9) Funds Held for Others

The Foundation administered funds for others of \$16,282,368 and \$18,862,647 at June 30, 2008 and 2007, respectively. These funds are commingled with the Foundation’s investments and are accounted for at the fair value of the underlying investments. Earnings and losses from these investments, as well as funds received and distributed, are not included in the changes in net assets of the Foundation.

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June 30, 2008 and 2007

The Foundation assists with fund-raising activities of the University and processes the receipts for many University affiliated organizations. During fiscal years 2008 and 2007, the Foundation received approximately \$1,916,715 and \$2,651,000, respectively, for the University of Mississippi Alumni Association and \$13,539,000 and \$12,047,000, respectively, for the UMAA Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2008 and 2007 include approximately \$2,041,000 and \$2,508,000, respectively, to the University of Mississippi Alumni Association and \$14,519,000 and \$13,462,000, respectively, to the UMAA Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third party organizations. During fiscal years 2008 and 2007, the Foundation received approximately \$127,000 and \$594,000, respectively, from these organizations and made distributions to these organizations, at the organization's direction, of approximately \$392,000 and \$570,000, respectively.

(10) Mississippi Common Fund Trust

Included in other liabilities are \$2,655,324 and \$11,468,688 at June 30, 2008 and 2007, respectively, related to the Mississippi Common Fund Trust. The donor directed trust was established by the Foundation to allow donors to receive a charitable deduction for gifts to the trust. The Foundation manages the trust's assets, with earnings distributed to charitable organizations, at the donor's direction, on an annual basis. If the donor does not make an annual designation of funds to a charitable organization, then such designation may be made by the Foundation. Remaining corpus must be disbursed to one or more qualifying charitable organizations within one year after the death of the donor's surviving spouse as directed through the donor's will or other instruction or it will revert to the Foundation.

(11) Transfer from UMMC Alumni Association

During the fiscal year 2007, the UMMC Alumni Association permanently transferred \$9,996,163 of assets to the Foundation. Of the amounts transferred, \$3,519,456 had been previously included in funds held for others in the accompanying financial statements.

(12) Disposition of Real Estate Investment

During fiscal year 2007, the Foundation transferred real estate located in Oxford, Mississippi and valued at \$835,000, directly to the University. Amounts transferred were based on the property's appraised values.

(13) Subsequent Event

The liquidity crisis that originally was linked principally to the sub-prime lending markets has spread to other corners of the credit markets in the U.S. and internationally. It is not possible at this time to predict the full impact or duration of the existing illiquid credit market conditions. The unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation of its investments.