



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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, 2009

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	\$ 3,671,027	8,778,262
Pledges receivable, less allowance for doubtful pledges of \$1,771,452 in 2009 and \$7,481,928 in 2008	22,273,648	22,882,931
Investments	250,547,579	291,801,578
Beneficial interest in remainder trust	3,730,226	3,417,765
Other assets	1,642,405	1,530,963
Property and equipment, net	<u>2,087,430</u>	<u>2,944,631</u>
Total assets	<u>\$ 283,952,315</u>	<u>331,356,130</u>
Liabilities and Net Assets		
Funds held for others	\$ 15,686,378	16,282,368
Liabilities under remainder trusts	4,352,873	5,978,882
Other liabilities	<u>2,858,813</u>	<u>5,265,766</u>
Total liabilities	<u>22,898,064</u>	<u>27,527,016</u>
Net assets (deficit):		
Unrestricted	(2,231,842)	6,192,311
Temporarily restricted	123,853,162	167,793,676
Permanently restricted	<u>139,432,931</u>	<u>129,843,127</u>
Total net assets	<u>261,054,251</u>	<u>303,829,114</u>
Total liabilities and net assets	<u>\$ 283,952,315</u>	<u>331,356,130</u>

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2009

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

See accompanying notes to financial statements.

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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

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	\$ (42,774,863)	(14,792,327)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	159,466	205,929
Permanently restricted contributions	(8,316,897)	(1,378,649)
Contributions of real estate	—	(2,727,500)
Net realized and unrealized losses on investments	45,494,106	29,406,319
Changes in operating assets and liabilities:		
Other assets	(111,442)	43,910
Pledges receivable	1,828,335	(599,715)
Funds held for others	3,604,486	(3,326,239)
Beneficial interest in remainder trust	(312,461)	(206,364)
Liabilities under remainder trusts	(402,030)	3,817,616
Other liabilities	(2,406,953)	(6,969,208)
Net cash (used in) provided by operating activities	(3,238,253)	3,473,772
Cash flows from investing activities:		
Purchases of property and equipment	(43,543)	(220,667)
Proceeds from sale of property and equipment	741,278	—
Purchases of Foundation investments	(42,249,828)	(42,239,815)
Proceeds from sales and maturities of Foundation investments	32,855,543	38,532,273
Net cash used in investing activities	(8,696,550)	(3,928,209)
Cash flows from financing activities:		
Permanently restricted contributions	7,097,845	5,598,760
Receipts under split interest agreements	200,000	1,000,000
Payments to beneficiaries under remainder trusts	(470,277)	(432,934)
Net cash provided by financing activities	6,827,568	6,165,826
Net increase (decrease) in cash and cash equivalents	(5,107,235)	5,711,389
Cash and cash equivalents:		
Beginning of year	8,778,262	3,066,873
End of year	\$ 3,671,027	8,778,262

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2009 and 2008

(1) Nature of Organization

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

(2) Summary of Significant Accounting Policies

(a) *Use of Estimates*

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

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

(b) *Donor-Imposed Restrictions*

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

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

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

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

(c) *Revenue Recognition*

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

The Foundation earns a management fee of one-half of one percent on certain endowment funds. For the fiscal years ended June 30, 2009 and 2008, such fees totaled approximately \$1,322,000 and \$1,413,000, respectively, and were recorded as other income and reflected within unrestricted net assets.

(d) Cash and Cash Equivalents

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

(e) Investments

Investments are recorded at fair value. The fair values of all investments other than real estate and partnership and membership interests (which include certain private equity investments and hedge funds) are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets, or inputs corroborated by observable market data. 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.

(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, 2009 and 2008 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

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present value of any applicable liabilities for projected distributions to third parties. The discount rate used to value the beneficiary liability is fixed at the gift date. CRUTs are revalued annually and the beneficiary payments adjusted accordingly. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

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

(i) ***Recent Accounting Pronouncements***

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions and requires that the Foundation recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. In December 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FIN 48 to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of FIN 48 to the year beginning July 1, 2009, and the adoption of FIN 48 is not anticipated to have any material impact to the Foundation's financial statements.

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements. In conjunction with the adoption of SFAS No. 157, the Foundation elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. This guidance amends SFAS No. 157 and permits, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to SFAS No. 157. The Foundation's adoption of SFAS No. 157 did not have a significant impact on the Foundation's determination of fair value in the financial statements but did result in expanded footnote disclosures in note 5 to the financial statements.

Effective July 1, 2008, the Foundation adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statements No. 115* (SFAS No. 159). SFAS No. 159 gave the Foundation the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Foundation did not elect the fair value option in regard to items not previously recorded at fair value; therefore, the adoption of this statement had no impact on the financial position or results of operations of the Foundation.

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In August 2008, the FASB issued Staff Position (FSP) No. 117-1, *Endowments of Non-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* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA and expands disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. As of June 30, 2009, the state of Mississippi had not yet adopted UPMIFA. The Foundation adopted the disclosure provisions of FSP 117-1 during the year ended June 30, 2009.

(j) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued SFAS No. 165, *Subsequent Events*, the Foundation evaluated subsequent events after the balance sheet date of June 30, 2009 through October 16, 2009 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, 2009, pledges mature at various dates through 2030 (approximately \$8,962,000 is due in fiscal year 2010, \$16,711,000 is due in total during the period including fiscal year 2011 through fiscal year 2015, and \$3,061,000 is due thereafter). At June 30, 2008, pledges mature at various dates through 2029 (approximately \$9,136,000 is due in fiscal year 2009, \$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). A summary of pledges receivable as of June 30, 2009 and 2008 follows:

	2009	2008
Temporarily restricted	\$ 21,480,174	26,865,432
Permanently restricted	7,253,570	10,867,191
	28,733,744	37,732,623
Allowances for doubtful pledges	(1,771,452)	(7,481,928)
Present value discount (ranging from 3.3% to 5.1%)	(4,688,644)	(7,367,764)
	\$ 22,273,648	22,882,931

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(4) Investments

The Foundation's investments consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
U. S. Government securities	\$ 396,250	647,626
Corporate bonds	4,023,458	4,679,491
Certificates of deposit	300,267	284,451
Other short-term investments	19,384,749	14,211,342
Other fixed income securities	83,641,546	84,558,891
Equity securities	102,144,717	143,271,349
Real estate	6,808,299	6,958,299
Partnership and member interests	33,848,293	37,190,129
	<u>\$ 250,547,579</u>	<u>291,801,578</u>

(5) Fair Value Measurement

The Foundation adopted SFAS No. 157 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government securities	\$ —	396,250	—	396,250
Corporate bonds	98,978	3,924,480	—	4,023,458
Certificates of deposit	—	300,267	—	300,267
Other short-term investments	7,000,570	12,384,179	—	19,384,749
Other fixed income securities	69,558,327	14,083,219	—	83,641,546
Equity securities	102,144,717	—	—	102,144,717
Real estate	—	—	6,808,299	6,808,299
Partnership and member interests	—	7,862,710	25,985,583	33,848,293
Total investments	<u>\$ 178,802,592</u>	<u>38,951,105</u>	<u>32,793,882</u>	<u>250,547,579</u>
Beneficial interest in remainder trust	<u>\$ —</u>	<u>—</u>	<u>3,730,226</u>	<u>3,730,226</u>

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

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

	<u>Real estate</u>	<u>Partnership and member interests</u>	<u>Beneficial interest in remainder trust</u>
Balance as of June 30, 3008	\$ 6,958,299	25,864,286	3,417,765
Net realized and unrealized gain (loss)	(150,000)	(3,742,703)	312,461
Net purchases (sales)	—	3,864,000	—
Balance as of June 30, 2009	<u>\$ 6,808,299</u>	<u>25,985,583</u>	<u>3,730,226</u>

(6) Net Asset Classification of Endowment Funds

The Foundation adopted 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* as of July 1, 2008. This standard, which is effective for years ending after December 31, 2008 provides guidance on

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the net asset classification of donor restricted endowment funds and related disclosures. FSP 117-1 also provides guidance relative to net asset classification of funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). When adopted by the state of domicile, UPMIFA requires a number of management assessments, including:

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

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

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

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

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Changes in donor-restricted endowment net assets for the years ended June 30, 2009 and 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment net assets (deficit), June 30, 2007	\$ (209)	76,783,272	123,130,634	199,913,697
Contributions to endowment	—	—	7,489,155	7,489,155
Appropriation for expenditures	—	(7,768,281)	—	(7,768,281)
Investment return:				
Investment income	—	7,637,405	—	7,637,405
Net appreciation (depreciation)	(472,096)	(20,565,820)	—	(21,037,916)
Donor-restricted endowment net assets (deficit), June 30, 2008	(472,305)	56,086,576	130,619,789	186,234,060
Contributions to endowment	—	—	7,309,781	7,309,781
Appropriation for expenditures	—	(9,036,789)	—	(9,036,789)
Investment return:				
Investment income	—	5,705,977	—	5,705,977
Net appreciation (depreciation)	(8,275,537)	(27,806,238)	—	(36,081,775)
Donor-restricted endowment net assets (deficit), June 30, 2009	\$ <u>(8,747,842)</u>	<u>24,949,526</u>	<u>137,929,570</u>	<u>154,131,254</u>

Due to unfavorable market fluctuations, the Foundation has endowments that have fallen below the original gift value of the funds. At June 30, 2009 and 2008, the fair values of certain permanently restricted investments were below their original contribution by approximately \$8,748,000 and \$472,000, respectively, and these deficiencies have been recorded in unrestricted net assets. Future gains will be used to restore these deficiencies in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

(7) Life Insurance Policies

The Foundation has obtained life insurance policies for which it has been named owner and beneficiary. The face amounts of life insurance policies in excess of cash surrender values held by the Foundation are deferred and recognized as revenue only when collected. The cash surrender value amounts of such policies as of June 30, 2009 and 2008 were \$1,330,000 and \$1,367,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(8) Charitable Trusts

The Foundation administered charitable remainder trusts with investments of approximately \$5,515,000 and \$6,726,000 as of June 30, 2009 and 2008, respectively, and are reported as investments on the

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statements of financial position. Pursuant to the trust agreements, specified amounts of income from the trust's assets must be distributed to the income beneficiaries each year. Liabilities under remainder trusts totaled \$4,352,873 and \$5,978,882 as of June 30, 2009 and 2008, respectively. The discount rates used in these measurement ranges from 5.25% to 6.20%. The remainder of the income and the assets will become the property of the Foundation at a time designated in the trust agreements, usually upon the death of the income beneficiary.

(9) Property and Equipment

Property and equipment consist of the following at June 30, 2009 and 2008:

	2009	2008
Land	\$ 300,000	665,000
Building and equipment	3,005,713	3,468,271
Total	3,305,713	4,133,271
Accumulated depreciation	(1,218,283)	(1,188,640)
Property and equipment, net	\$ 2,087,430	2,944,631

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) Net Assets

Permanently restricted net assets at June 30, 2009 and 2008 were available for the following purposes:

	2009	2008
Academic and program support	\$ 30,415,319	28,333,715
Scholarship support	64,990,577	59,878,745
Faculty support	30,583,380	28,632,139
Library support	13,443,655	12,998,528
Total	\$ 139,432,931	129,843,127

The vast majority of temporarily restricted net assets at June 30, 2009 and 2008 were available for academic and program support.

(11) Funds Held for Others

The Foundation administered funds for others of \$15,686,378 and \$16,282,368 at June 30, 2009 and 2008, respectively. These funds are commingled with the Foundation's investments and are accounted for at the fair value of the underlying investments. Earnings and losses from these investments, as well as funds received and distributed, are not included in the changes in net assets of the Foundation.

The Foundation assists with fund-raising activities of the University and processes the receipts for many University affiliated organizations. During fiscal years 2009 and 2008, the Foundation received

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2009 and 2008

approximately \$2,445,000 and \$1,917,000, respectively, for the University of Mississippi Alumni Association and \$15,527,000 and \$13,539,000, respectively, for the UMAA Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2009 and 2008 include approximately \$2,462,000 and \$2,041,000, respectively, to the University of Mississippi Alumni Association and \$15,491,000 and \$14,519,000, respectively, to the UMAA Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third party organizations. During fiscal years 2009 and 2008, the Foundation received approximately \$752,000 and \$127,000, respectively, from these organizations and made distributions to these organizations, at the organization's direction, of approximately \$668,000 and \$392,000, respectively.

(12) Mississippi Common Fund Trust

Included in other liabilities are \$539,439 and \$2,655,324 at June 30, 2009 and 2008, 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.