



**THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 1100  
One Jackson Place  
188 East Capitol Street  
Jackson, MS 39201

## **Independent Auditors' Report**

The Board of Directors  
The University of Southern Mississippi Foundation:

We have audited the accompanying consolidated statements of financial position of The University of Southern Mississippi Foundation (the Foundation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Southern Mississippi Foundation as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

November 24, 2009

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Consolidated Statements of Financial Position

June 30, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 21,013,665	14,913,974
Accrued interest	199,026	209,235
Prepaid assets and other receivables	243,125	143,908
Advances to The University of Southern Mississippi	360,275	—
Pledges receivable, net (note 4)	6,298,395	8,066,885
Investments (note 2)	42,511,749	54,440,772
Present value of amounts due from externally managed trusts (note 5)	1,575,976	1,936,266
Net investment in direct financing lease (note 13)	1,532,351	—
Furniture and equipment, net (note 6)	446,540	22,511
Total assets	\$ 74,181,102	79,733,551
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 464,686	605,915
Line of credit (note 7)	1,474,503	—
Amounts due to brokers	48,391	46,506
Gift annuities payable	410,186	421,606
Liability for amounts held for others	7,877	35,111
Total liabilities	2,405,643	1,109,138
Net assets:		
Unrestricted	1,274,079	4,046,749
Temporarily restricted (note 8)	24,999,373	29,612,790
Permanently restricted (note 9)	45,502,007	44,964,874
Total net assets	71,775,459	78,624,413
Commitments (note 6)		
Total liabilities and net assets	\$ 74,181,102	79,733,551

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Consolidated 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	\$ 1,757,415	9,453,383	1,168,478	12,379,276
Net investment loss (note 2)	(1,981,483)	(6,265,702)	(364,284)	(8,611,469)
Change in value of split interest agreements	—	20,807	(416,039)	(395,232)
Other	(26,272)	188,825	88,993	251,546
Change in restriction by donor	4,278	(64,263)	59,985	—
Net assets released from restrictions	<u>7,946,467</u>	<u>(7,946,467)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>7,700,405</u>	<u>(4,613,417)</u>	<u>537,133</u>	<u>3,624,121</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	<u>8,133,099</u>	<u>—</u>	<u>—</u>	<u>8,133,099</u>
Total program services	<u>8,133,099</u>	<u>—</u>	<u>—</u>	<u>8,133,099</u>
Supporting services:				
General and administrative	<u>1,379,616</u>	<u>—</u>	<u>—</u>	<u>1,379,616</u>
Fund raising	<u>960,360</u>	<u>—</u>	<u>—</u>	<u>960,360</u>
Total supporting services	<u>2,339,976</u>	<u>—</u>	<u>—</u>	<u>2,339,976</u>
Total expenses	<u>10,473,075</u>	<u>—</u>	<u>—</u>	<u>10,473,075</u>
Increase (decrease) in net assets	<u>(2,772,670)</u>	<u>(4,613,417)</u>	<u>537,133</u>	<u>(6,848,954)</u>
Net assets at beginning of year	<u>4,046,749</u>	<u>29,612,790</u>	<u>44,964,874</u>	<u>78,624,413</u>
Net assets at end of year	\$ <u><u>1,274,079</u></u>	<u><u>24,999,373</u></u>	<u><u>45,502,007</u></u>	<u><u>71,775,459</u></u>

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Consolidated 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	\$ 1,628,718	2,629,581	1,414,632	5,672,931
Net investment income (loss) (note 2)	882,050	(1,780,469)	68,675	(829,744)
Change in value of split interest agreements	—	37,645	(119,589)	(81,944)
Other	11,810	97,410	56,856	166,076
Change in restriction by donor	(130,036)	(1,158,031)	1,288,067	—
Net assets released from restrictions	<u>5,058,914</u>	<u>(5,058,914)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>7,451,456</u>	<u>(5,232,778)</u>	<u>2,708,641</u>	<u>4,927,319</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	<u>5,458,560</u>	<u>—</u>	<u>—</u>	<u>5,458,560</u>
Total program services	<u>5,458,560</u>	<u>—</u>	<u>—</u>	<u>5,458,560</u>
Supporting services:				
General and administrative	<u>1,367,694</u>	<u>—</u>	<u>—</u>	<u>1,367,694</u>
Fund raising	<u>765,605</u>	<u>—</u>	<u>—</u>	<u>765,605</u>
Total supporting services	<u>2,133,299</u>	<u>—</u>	<u>—</u>	<u>2,133,299</u>
Total expenses	<u>7,591,859</u>	<u>—</u>	<u>—</u>	<u>7,591,859</u>
Increase (decrease) in net assets	(140,403)	(5,232,778)	2,708,641	(2,664,540)
Net assets at beginning of year	<u>4,187,152</u>	<u>34,845,568</u>	<u>42,256,233</u>	<u>81,288,953</u>
Net assets at end of year	\$ <u><u>4,046,749</u></u>	<u><u>29,612,790</u></u>	<u><u>44,964,874</u></u>	<u><u>78,624,413</u></u>

See accompanying notes to consolidated financial statements.

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (6,848,954)	(2,664,540)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation and amortization	9,459	10,358
Realized and unrealized losses on investments, net	9,704,179	2,063,253
Permanently restricted contributions	(1,125,529)	(1,015,549)
Permanently restricted dividends and interest	(23,808)	(42,070)
Change in externally managed trusts	360,290	3,059,274
Change in gift annuities and pooled income fund	124,132	46,820
Present value adjustments to annuities	41,335	49,769
Changes in operating assets and liabilities:		
Accrued interest	10,209	(2,967)
Prepaid assets and other receivables	(99,217)	(41,491)
Advances to The University of Southern Mississippi	(360,275)	149,419
Pledges receivable, net	1,768,490	2,968,104
Accounts payable	(141,229)	209,164
Liability for amounts held for others	(27,234)	(39,470)
Net cash provided by operating activities	<u>3,391,848</u>	<u>4,750,074</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	(433,488)	(6,360)
Change in cash surrender value of life insurance	(144,613)	(347,164)
Purchases of investments	(17,020,827)	(34,574,176)
Change in amounts due to brokers	1,885	(149,394)
Proceeds from sales and maturities of investments	19,266,152	37,407,477
Purchase of assets to be leased	(1,585,165)	—
Principal payments received under direct financing lease	52,814	—
Net cash provided by investing activities	<u>136,758</u>	<u>2,330,383</u>
Cash flows from financing activities:		
Proceeds from line of credit	1,600,000	—
Principal payments on line of credit	(125,497)	—
Permanently restricted contributions	1,125,529	1,015,549
Permanently restricted dividends and interest	23,808	42,070
Investments subject to annuity agreements	—	(17,619)
Annuity payments	(52,755)	(54,315)
Net cash provided by financing activities	<u>2,571,085</u>	<u>985,685</u>
Net increase in cash and cash equivalents	6,099,691	8,066,142
Cash and cash equivalents at beginning of year	<u>14,913,974</u>	<u>6,847,832</u>
Cash and cash equivalents at end of year	\$ <u><u>21,013,665</u></u>	\$ <u><u>14,913,974</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 14,543	—
Non-cash direct financing lease	1,585,165	—

See accompanying notes to consolidated financial statements.

# THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### (1) Organization and Significant Accounting Policies

#### (a) Organization

The University of Southern Mississippi Foundation (the Foundation) is a not-for-profit entity organized under the laws of the State of Mississippi to provide support to The University of Southern Mississippi (the University) and its students. The Foundation depends on the University to provide the staff and facilities for its operations (see note 12).

Foundation Aviation Holdings, LLC was formed by the Foundation in October 2008 as a single member limited liability company. The Foundation's consolidated financial statements include the accounts of Foundation Aviation Holdings, LLC. All significant intercompany accounts and intercompany transactions have been eliminated.

#### (b) Basis of Accounting

The consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes - permanently restricted, temporarily restricted and unrestricted as follows:

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donor of these assets permits the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the University.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets include contributions designated to a particular college or unit. To the extent that restricted resources from multiple donors are available for the same purpose, the Foundation expends such gifts on a “first in, first out” basis.

Unrestricted net assets – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the

# THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Income and realized and unrealized gains (losses) on investments of permanently restricted net assets are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- as increases (decreases) in unrestricted net assets in all other cases.

### (c) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

The Foundation's investments are invested in various types of investment securities and in various companies 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 at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

Another estimate that is particularly susceptible to significant change in the near term relates to the allowance for uncollectible pledges. Management's estimate of the allowance for uncollectible pledges is based on an analysis of economic conditions, financial information about donors and current receivable levels and agings.

### (d) *Advances*

At June 30, 2009, advances to the University totaling \$360,275, represent amounts paid to the University for projects that have not been completed. At June 30, 2008, there were no such advances to the University.

### (e) *Furniture and Equipment*

Furniture and equipment are stated at cost if purchased, or at fair value on the date of gift if donated. Depreciation of equipment is provided on the straight-line method over the estimated useful life of the assets. The estimated useful lives for automobiles and office equipment is five years and furniture and fixtures is seven years. Software costs are capitalized in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and are depreciated over an estimated useful life of five years.

# THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

**(f) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Transactions are accounted for on a trade date basis. Real estate investment funds are reported at net asset value. Other investments, which consist primarily of pooled investment funds and real estate, are recorded at fair value. The fair value of real estate is based on recent appraisals.

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.

**(g) Pledges**

All unconditional pledges to give are recorded at their estimated realizable value on a discounted basis using a risk-free interest rate.

**(h) Split Interest Agreements**

The Foundation accepts gifts subject to split interest agreements. These gifts are in the form of annuities, pooled income funds, charitable remainder trusts, or charitable lead trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using a designated discount rate. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

**(i) Income Taxes**

The Foundation is exempt from federal income taxes on related income under Internal Revenue Code section 501(a) as an organization described in section 501(c)(3). Foundation Aviation Holdings, LLC is disregarded as an entity separate from the Foundation for purposes of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

**(j) Planned Giving Inventory**

Planned giving inventory, which includes wills, revocable trusts, and the face value of insurance policies of which the Foundation is the owner and beneficiary, is not recorded as it represents a conditional promise to give which constitutes a future uncertain event.

**(k) Liquidity**

Assets are presented according to their nearness to cash and liabilities are presented according to their nearness of payment or use of cash.

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## Notes to Consolidated Financial Statements

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**(l) Cash Equivalents**

All highly liquid cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

**(m) Contributed Goods and Services**

Contributed goods and services are recorded as revenues and expenses in the consolidated statements of activities at estimated fair value (see note 12).

**(n) Recently Issued Accounting Standards**

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 their consolidated 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 consolidated financial statements.

On July 1, 2008, the Foundation adopted the provisions of FASB Statement No. 157 (Statement No. 157), *Fair Value Measurements*, 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. Statement No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (see note 3). In conjunction with the adoption of Statement 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 Statement 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 Statement No. 157. FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of Statement No. 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. On July 1, 2009, the Foundation will be required to apply the provisions of Statement No. 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. The Foundation believes

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applying these provisions will not have a significant impact on its 2010 consolidated financial statements.

Effective July 1, 2008, the Foundation adopted FASB No. 159 (Statement No. 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. Statement 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 recorded in changes in net assets. The Foundation did not elect the fair value option in regards to items not previously recorded at fair value; therefore, the adoption of this statement had no impact on the Foundation's 2009 consolidated financial statements.

The FASB has issued FASB Staff Position (FSP) FASB 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 FASB No. 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 FASB No. 117-1 during the year ended June 30, 2009 (see note 10).

**(o) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with the recently issued FASB Statement No. 165, *Subsequent Events*, the Foundation evaluated subsequent events after the consolidated statement of financial position date of June 30, 2009 through November 24, 2009, which is the date the consolidated financial statements were available to be issued.

**(2) Investments**

Investments are summarized as follows at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Pooled investments and mutual funds	\$ 13,908,675	14,863,113
U. S. Government obligations	9,597,384	8,699,018
Corporate equities	11,507,583	23,331,845
Corporate debt obligations	4,582,326	4,054,938
Real estate investment funds	550,429	1,256,577
Cash surrender value of insurance policies	1,813,664	1,673,193
Real estate	505,656	516,056
Other	46,032	46,032
	<u>\$ 42,511,749</u>	<u>54,440,772</u>

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The Foundation has entered into various split interest agreements, including charitable gift annuities and pooled income funds, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2009 and 2008 with a fair value of \$544,460 and \$711,350, respectively.

At June 30, 2009 and 2008, the fair value of certain permanently restricted investments have gone below their historical cost, and the deficiency of \$2,538,573 and \$273,916, respectively, has been recorded in unrestricted net assets. Future gains will be used to restore these deficiencies in unrestricted net assets before any appreciation above the historical cost value of such funds increases temporarily restricted net assets.

The following schedule summarizes net investment income (loss) and its classification in the consolidated statements of activities:

	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Dividends and interest (net of expenses of \$395,690)	\$ 660,474	408,427	23,808	1,092,709
Realized losses, net	(108,778)	(2,195,788)	(81,014)	(2,385,580)
Unrealized losses, net	(2,533,179)	(4,478,341)	(307,078)	(7,318,598)
	<u>\$ (1,981,483)</u>	<u>(6,265,702)</u>	<u>(364,284)</u>	<u>(8,611,469)</u>
	<b>2008</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Dividends and interest (net of expenses of \$420,040)	\$ 1,256,644	(65,205)	42,070	1,233,509
Realized gains, net	34,661	3,785,985	320,900	4,141,546
Unrealized losses, net	(409,255)	(5,501,249)	(294,295)	(6,204,799)
	<u>\$ 882,050</u>	<u>(1,780,469)</u>	<u>68,675</u>	<u>(829,744)</u>

**(3) Fair Value Measurements**

Statement No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy established in Statement No. 157 prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 – Observable inputs are quoted prices in active markets for identical assets and liabilities,
- Level 2 – Observable inputs are other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar

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instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require management to develop relevant assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Mutual funds, pooled investment funds, U.S. Government obligations, corporate equities, corporate debt obligations and externally managed trusts:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Real estate investment funds:* Valued at the net asset value of underlying investments as determined by the asset custodian; management also takes into consideration the audited financial information to determine overall reasonableness of the recorded value.

*Life insurance contracts:* Valued at the cash surrender value of the life insurance contract as determined by the life insurance company.

*Real estate and other:* Valued on the basis of recent appraisals.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value or net asset value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 13,829,979	—	—	13,829,979
Pooled investment funds	78,696	—	—	78,696
U.S. Government obligations	9,597,384	—	—	9,597,384
Corporate equities	11,507,583	—	—	11,507,583
Corporate debt obligations	4,582,326	—	—	4,582,326
Real estate investment funds	—	—	550,429	550,429
Life insurance contracts	—	—	1,813,664	1,813,664
Real estate	—	—	505,656	505,656
Other	—	—	46,032	46,032
Externally managed trusts	1,575,976	—	—	1,575,976
	<u>\$ 41,171,944</u>	<u>—</u>	<u>2,915,781</u>	<u>44,087,725</u>

*Level 3 Gains and Losses*

The table below sets forth a summary of changes in the fair value or net asset value of the Foundation's level 3 assets for the year ended June 30, 2009.

	<u>Level 3 Assets</u>				<u>Total</u>
	<u>Real estate investment funds</u>	<u>Life insurance contracts</u>	<u>Real estate</u>	<u>Other</u>	
Balance, beginning of year	\$ 1,256,577	1,673,193	516,056	46,032	3,491,858
Realized losses	(46,802)	—	(10,400)	—	(57,202)
Unrealized losses	(659,346)	—	—	—	(659,346)
Change in cash surrender value	—	140,471	—	—	140,471
Balance, end of year	<u>\$ 550,429</u>	<u>1,813,664</u>	<u>505,656</u>	<u>46,032</u>	<u>2,915,781</u>

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**(4) Pledges Receivable**

Pledges receivable, net, are summarized as follows at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,994,036	4,386,979
One year to five years	3,556,733	4,609,775
Over five years	193,879	703,988
	<u>7,744,648</u>	<u>9,700,742</u>
Less unamortized discounts ranging from 2.54% to 5.15%	<u>(640,650)</u>	<u>(909,986)</u>
	7,103,998	8,790,756
Less allowance for uncollectible pledges	<u>(805,603)</u>	<u>(723,871)</u>
	<u>\$ 6,298,395</u>	<u>8,066,885</u>

**(5) Externally Managed Trusts**

Externally managed trusts consist of irrevocable charitable lead trusts and charitable remainder trusts whereby the Foundation is the beneficiary, not the trustee. The amount due from these split-interest agreements and the related contribution revenue is recognized at the fair value at the date of the gift. The amount due is then discounted using a discount rate and age factors in order to record the contribution at net present value. The discount rates used as of June 30, 2009 ranged from 3.53% to 4.32%. The discount rates as of June 30, 2008 ranged from 3.99% to 4.59%.

**(6) Furniture and Equipment**

Furniture and equipment are summarized as follows:

	<u>2009</u>	<u>2008</u>
Automobiles	\$ 45,469	45,469
Furniture and fixtures	66,872	66,872
Office equipment	9,374	8,519
Software (not placed in service as of June 30, 2009)	432,633	—
	<u>554,348</u>	<u>120,860</u>
Less accumulated depreciation	<u>(107,808)</u>	<u>(98,349)</u>
	<u>\$ 446,540</u>	<u>22,511</u>

The Foundation has made certain commitments to purchase additional computer software system. At June 30, 2009, outstanding capital commitments total \$275,774.

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**(7) Line of Credit**

In December 2008, the Foundation entered into a revolving line of credit facility with JPMorgan Chase Bank, NA, to purchase an aircraft for lease to the University. The line allows for borrowings up to \$1,600,000 and is secured by an investment account held by the Foundation. The line has a maturity date of December 11, 2009. As of June 30, 2009, the outstanding balance of the line was \$1,474,503. The line bears interest at a variable rate basis at the rate per annum equal to 1.80% points over the one-month LIBOR index (2.12% at June 30, 2009). Interest expense incurred during the year ended June 30, 2009 was \$16,321, including accrued interest of \$1,778 at June 30, 2009.

**(8) Temporarily Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Student financial aid	\$ 10,532,324	12,970,350
Academic divisions	3,308,586	2,890,912
Research	407,075	663,023
Operation and maintenance of plant	4,020,228	6,530,127
Library	122,185	190,312
Athletics	307,226	296,326
Faculty and staff support	319,554	506,616
Other restricted purposes	5,982,195	5,565,124
Total	<u>\$ 24,999,373</u>	<u>29,612,790</u>

**(9) Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2009 and 2008 have been categorized based on the donors' designation of the related investment income and are summarized as follows:

	<u>2009</u>	<u>2008</u>
Student financial aid	\$ 27,826,695	27,588,641
Academic divisions	3,994,702	3,681,408
Research	676,181	705,969
Operation and maintenance of plant	1,227,717	1,185,943
Library	2,896,691	2,975,699
Athletics	12,950	—
Faculty and staff support	6,167,858	5,967,517
Other restricted purposes	2,699,213	2,859,697
Total	<u>\$ 45,502,007</u>	<u>44,964,874</u>

**(10) Endowment Net Assets**

The Foundation has approximately 750 individual funds which function as endowment-type funds that are established for operating and scholarship purposes. The endowment-type funds include both

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donor-restricted endowment-type funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including board-designated funds to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

During the years ended June 30, 2009 and 2008, the Foundation had the following endowment related activities:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 3,432,487	11,064,573	40,300,862	54,797,922
Contributions	13,415	1,082,254	1,220,882	2,316,551
Net investment income (loss)	283,213	(8,935,895)	(350,210)	(9,002,892)
Other income (loss)	2,442	6,121	(2,906)	5,657
Change in restriction by donor	4,738	(24,050)	146,516	127,204
Expenses	(200,081)	(1,518,166)	—	(1,718,247)
Transfers	(1,089,912)	(6,349)	(159,128)	(1,255,389)
Allocation of fund deficiencies in endowments related to investment losses	<u>(2,264,656)</u>	<u>2,264,656</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2009	\$ <u>181,646</u>	<u>3,933,144</u>	<u>41,156,016</u>	<u>45,270,806</u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ 3,210,665	14,817,556	32,808,625	50,836,846
Contributions	29,672	8,488	1,239,330	1,277,490
Net investment income (loss)	1,164,047	(2,043,955)	72,420	(807,488)
Other income (loss)	(9,904)	302	(731)	(10,333)
Change in restriction by donor	(33,251)	(667,129)	723,194	22,814
Expenses	(10,124)	(1,274,596)	1,375	(1,283,345)
Transfers	(692,063)	(2,648)	5,456,649	4,761,938
Allocation of fund deficiencies in endowments related to investment losses	<u>(226,555)</u>	<u>226,555</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2008	\$ <u>3,432,487</u>	<u>11,064,573</u>	<u>40,300,862</u>	<u>54,797,922</u>

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At June 30, 2009 and 2008, the endowment net asset composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment-type funds	\$ —	3,933,144	41,156,016	45,089,160
Board-designated endowment-type funds	<u>181,646</u>	<u>—</u>	<u>—</u>	<u>181,646</u>
Endowment net assets, June 30, 2009	\$ <u>181,646</u>	<u>3,933,144</u>	<u>41,156,016</u>	<u>45,270,806</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment-type funds	\$ —	11,064,573	40,300,862	51,365,435
Board-designated endowment-type funds	<u>3,432,487</u>	<u>—</u>	<u>—</u>	<u>3,432,487</u>
Endowment net assets, June 30, 2008	\$ <u>3,432,487</u>	<u>11,064,573</u>	<u>40,300,862</u>	<u>54,797,922</u>

**(11) Planned Giving Inventory (Unaudited)**

Planned giving inventory for the Foundation as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Insurance policies	\$ 19,967,819	19,542,819
Wills	6,270,000	6,075,000
Trusts	8,634,599	8,434,599
Other	<u>850,000</u>	<u>850,000</u>
	\$ <u>35,722,418</u>	<u>34,902,418</u>

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**(12) Related Party Transactions**

The following contributed services, commodities, utilities, equipment, and facilities were received from the University during 2009 and 2008 and are reflected as unrestricted contributions and unrestricted expenses in the consolidated statements of activities.

	<b>2009</b>	<b>2008</b>
Wages and benefits	\$ 1,504,383	1,381,198
Contractual services	53,947	46,411
Commodities	40,108	22,931
Utilities	37,670	37,893
Facilities	96,144	96,144
Total	\$ 1,732,252	1,584,577

**(13) Net Investment in Direct Financing Lease**

Through its wholly-owned subsidiary, Foundation Aviation Holdings LLC, the Foundation leases an airplane to the University under a direct financing lease arrangement. The lease expires in January 2019. The Foundation's net investment in the direct financing lease at June 30, 2009 is presented below.

Total minimum lease payments to be received	\$ 1,889,266
Less unearned income	(356,915)
Net investment in direct financing lease	\$ 1,532,351

Future minimum lease payments to be received are as follows:

Year ending June 30:	
2010	\$ 197,141
2011	197,141
2012	197,141
2013	197,141
2014	197,141
Thereafter	903,561
	\$ 1,889,266