



THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
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188 East Capitol Street
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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, 2010 and 2009, 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, 2010 and 2009, 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

October 15, 2010

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statements of Financial Position

June 30, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 6,287,959	21,013,665
Accrued interest	142,641	199,026
Prepaid assets and other receivables	145,485	243,125
Advances to The University of Southern Mississippi	—	360,275
Amounts due from brokers	176,967	—
Pledges receivable, net (note 4)	11,106,813	6,298,395
Investments (notes 2 and 3)	61,044,099	42,511,749
Present value of amounts due from externally managed trusts (note 5)	1,453,640	1,575,976
Net investment in direct financing lease (note 12)	1,385,060	1,532,351
Property and equipment, net (note 6)	394,890	446,540
Total assets	\$ 82,137,554	74,181,102
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 402,740	464,686
Line of credit (note 7)	1,322,113	1,474,503
Amounts due to brokers	—	48,391
Gift annuities payable	402,111	410,186
Liability for amounts held for others	3,524	7,877
Total liabilities	2,130,488	2,405,643
Net assets:		
Unrestricted	2,563,938	1,274,079
Temporarily restricted (note 8)	30,631,514	24,999,373
Permanently restricted (note 9)	46,811,614	45,502,007
Total net assets	80,007,066	71,775,459
Commitments (note 13)		
Total liabilities and net assets	\$ 82,137,554	74,181,102

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,828,217	10,209,491	1,032,174	13,069,882
Net investment gain (note 2)	2,054,658	2,001,026	111,464	4,167,148
Change in value of split interest agreements	—	22,526	(68,527)	(46,001)
Other	71,598	79,192	83,346	234,136
Change in restriction by donor	(42,100)	(109,050)	151,150	—
Net assets released from restrictions	<u>6,571,044</u>	<u>(6,571,044)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>10,483,417</u>	<u>5,632,141</u>	<u>1,309,607</u>	<u>17,425,165</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	<u>6,701,585</u>	<u>—</u>	<u>—</u>	<u>6,701,585</u>
Total program services	<u>6,701,585</u>	<u>—</u>	<u>—</u>	<u>6,701,585</u>
Supporting services:				
General and administrative	1,584,974	—	—	1,584,974
Fund raising	<u>906,999</u>	<u>—</u>	<u>—</u>	<u>906,999</u>
Total supporting services	<u>2,491,973</u>	<u>—</u>	<u>—</u>	<u>2,491,973</u>
Total expenses	<u>9,193,558</u>	<u>—</u>	<u>—</u>	<u>9,193,558</u>
Increase in net assets	1,289,859	5,632,141	1,309,607	8,231,607
Net assets at beginning of year	<u>1,274,079</u>	<u>24,999,373</u>	<u>45,502,007</u>	<u>71,775,459</u>
Net assets at end of year	<u>\$ 2,563,938</u>	<u>30,631,514</u>	<u>46,811,614</u>	<u>80,007,066</u>

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>
(Decrease) increase 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>\$ 1,274,079</u>	<u>24,999,373</u>	<u>45,502,007</u>	<u>71,775,459</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 8,231,607	(6,848,954)
Adjustments to reconcile increase (decrease) in net assets to net cash (used-in) provided by operating activities:		
Depreciation and amortization	78,224	9,459
Loss on disposal of property and equipment	8,060	—
Fair value of donated assets	(27,500)	—
Realized and unrealized (gains) losses on investments, net	(3,097,082)	9,704,179
Permanently restricted contributions	(1,324,526)	(1,125,529)
Permanently restricted dividends and interest	(16,533)	(23,808)
Change in externally managed trusts	122,336	360,290
Change in gift annuities and pooled income fund	(40,141)	124,132
Present value adjustments to annuities	44,681	41,335
Changes in operating assets and liabilities:		
Accrued interest	56,385	10,209
Prepaid assets and other receivables	97,640	(99,217)
Advances to The University of Southern Mississippi	360,275	(360,275)
Pledges receivable, net	(4,808,418)	1,768,490
Accounts payable	(61,946)	(141,229)
Liability for amounts held for others	(4,353)	(27,234)
Net cash (used in) provided by operating activities	<u>(381,291)</u>	<u>3,391,848</u>
Cash flows from investing activities:		
Purchases of property and equipment	(34,634)	(433,488)
Change in cash surrender value of life insurance	(102,679)	(140,471)
Purchases of investments	(28,329,948)	(17,020,827)
Change in amounts due to/from brokers	(225,358)	1,885
Proceeds from sales and maturities of investments	13,065,000	19,262,010
Purchase of assets to be leased	—	(1,585,165)
Principal payments received under direct financing lease	147,291	52,814
Net cash (used in) provided by investing activities	<u>(15,480,328)</u>	<u>136,758</u>
Cash flows from financing activities:		
Proceeds from line of credit	—	1,600,000
Principal payments on line of credit	(152,390)	(125,497)
Permanently restricted contributions	1,324,526	1,125,529
Permanently restricted dividends and interest	16,533	23,808
Annuity payments	(52,756)	(52,755)
Net cash provided by financing activities	<u>1,135,913</u>	<u>2,571,085</u>
Net (decrease) increase in cash and cash equivalents	(14,725,706)	6,099,691
Cash and cash equivalents at beginning of year	<u>21,013,665</u>	<u>14,913,974</u>
Cash and cash equivalents at end of year	\$ <u><u>6,287,959</u></u>	\$ <u><u>21,013,665</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 28,103	14,543
Non-cash direct financing lease	—	1,585,165

See accompanying notes to consolidated financial statements.

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(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 11).

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 the use of the underlying net asset 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

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as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the 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, 2010, there were no such advances to the University.

(e) *Property and Equipment*

Property 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 Financial

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Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*, and are depreciated over an estimated useful life of five years.

(f) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Real estate investment funds are reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. At June 30, 2010 and 2009, the Foundation had no plans or intentions to sell investments at amounts different from 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. Transactions are accounted for on a trade date basis.

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.

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(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.

(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 11).

(n) Recently Issued Accounting Standards

In June 2009, the FASB issued ASC Topic 105, *Generally Accepted Accounting Principles (GAAP)*, which establishes the FASB ASC as the source of authoritative principles and standards recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC Topic 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. Technical references to GAAP included herein are provided under the new FASB Accounting Standards Codification structure.

In June 2006, the FASB issued FASB ASC 740, *Income Taxes*. FASB ASC 740 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 an update to FASB ASC 740 which permitted an entity within its scope to defer the effective date of FASB ASC 740 to its annual financial statements for fiscal years beginning after December 15, 2008. On July 1, 2009, the Foundation adopted the provisions of FASB ASC 740. The provisions did not have a material impact on the consolidated financial statements.

On July 1, 2008, the Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 consolidated financial statements on a recurring basis. FASB ASC 820 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. FASB ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (see note 3). On July 1, 2009, the Foundation adopted the provisions of FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which amended FASB ASC 820. ASU 2009-12 provides guidance for estimating the fair value of investments in investment companies that have calculated net asset value per share. As a practical expedient, the FASB decided that a reporting entity should be permitted to estimate the fair value of an investment within the scope of this ASU using net asset value without further adjustment as of the reporting entity's measurement date. At June 30, 2010 and 2009, the Foundation's only investment reported at net asset value related to an investment in a real estate

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investment fund with a balance of \$62,953 and \$550,429, respectively. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to FASB ASC 820. On July 1, 2009, the Foundation adopted the provisions of FASB ASC 820 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 provisions did not have a material impact on the consolidated financial statements.

The FASB has issued FASB ASC 958, *Not-for-Profit Entities*, 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 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and expands disclosures about endowment funds (both donor-restricted and board-designated endowment funds), regardless of whether an organization is subject to UPMIFA. FASB ASC 958 was effective for fiscal years ending after December 15, 2008. As of June 30, 2010, the State of Mississippi had not yet adopted UPMIFA. The Foundation adopted the disclosure provisions of FASB ASC 958 during the year ended June 30, 2009 (see note 10).

(o) Subsequent Events

FASB ASC 855, *Subsequent Events*, introduces the concept of financial statements being “available to be issued,” and requires disclosure of the date through which the entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855 does not result in significant changes to subsequent events that are reported either through recognition or disclosure in the consolidated financial statements. The standard is effective for the Foundation’s June 30, 2010 consolidated financial statements, and the Foundation has evaluated subsequent events through October 15, 2010, the date the consolidated financial statements were available to be issued.

(p) Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2009 presentation. The reclassifications did not affect total net assets.

(2) Investments

Investments are summarized as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Pooled investments and mutual funds	\$ 29,333,373	13,908,675
U. S. Government obligations	10,686,428	9,597,384
Corporate equities	14,338,211	11,507,583
Corporate debt obligations	4,187,603	4,582,326
Real estate investment funds	62,953	550,429
Cash surrender value of insurance policies	1,916,343	1,813,664
Real estate	473,156	505,656
Other	46,032	46,032
	<u>\$ 61,044,099</u>	<u>42,511,749</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, 2010 and 2009 with a fair value of \$535,428 and \$544,460, respectively.

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

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$446,559)	\$ 1,008,644	44,889	16,533	1,070,066
Realized (losses) gains, net	(33,972)	497,679	20,340	484,047
Unrealized gains, net	1,079,986	1,458,458	74,591	2,613,035
	<u>\$ 2,054,658</u>	<u>2,001,026</u>	<u>111,464</u>	<u>4,167,148</u>
	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$420,040)	\$ 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>

(3) Fair Value Measurements

FASB ASC 820 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. FASB ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy established in FASB ASC 820 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 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.

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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 tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value or net asset value as of June 30, 2010 and 2009:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government obligations	\$ 10,686,428	—	—	10,686,428
Corporate debt obligations	4,187,603	—	—	4,187,603
Total fixed income	14,874,031	—	—	14,874,031
Equities:				
Mutual funds	29,252,610	—	—	29,252,610
Pooled investment funds	80,763	—	—	80,763
Corporate equities	14,338,211	—	—	14,338,211
Total equities	43,671,584	—	—	43,671,584
Real estate:				
Real estate investment funds	—	—	62,953	62,953
Real estate owned	—	—	473,156	473,156
Total real estate	—	—	536,109	536,109
Life insurance contracts	—	—	1,916,343	1,916,343
Other	—	—	46,032	46,032
Total investments	\$ 58,545,615	—	2,498,484	61,044,099
Present value of amounts due from externally managed trusts*	\$ 1,316,380	—	137,260	1,453,640

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	June 30, 2009			
	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government obligations	\$ 9,597,384	—	—	9,597,384
Corporate debt obligations	4,582,326	—	—	4,582,326
Total fixed income	14,179,710	—	—	14,179,710
Equities:				
Mutual funds	13,829,979	—	—	13,829,979
Pooled investment funds	78,696	—	—	78,696
Corporate equities	11,507,583	—	—	11,507,583
Total equities	25,416,258	—	—	25,416,258
Real estate:				
Real estate investment funds	—	—	550,429	550,429
Real estate owned	—	—	505,656	505,656
Total real estate	—	—	1,056,085	1,056,085
Life insurance contracts	—	—	1,813,664	1,813,664
Other	—	—	46,032	46,032
Total investments	\$ 39,595,968	—	2,915,781	42,511,749
Present value of amounts due from externally managed trusts*	\$ 1,258,796	—	317,180	1,575,976

* At June 30, 2010 and 2009, the present value of amounts due from externally managed trusts primarily consisted of mutual funds which are classified as Level 1 investments. Real estate, classified as a Level 3 investment, totaling \$137,260 and \$317,180, respectively, was also included in the present value of amounts due from externally managed trusts.

At June 30, 2010 and 2009, the Foundation had no outstanding unfunded commitments related to investments. In addition, all of the Foundation's investments can be redeemed or liquidated on a daily basis except for real estate investments which require a much longer period to liquidate.

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Level 3 Gains and Losses

The tables below set forth a summary of changes in the fair value or net asset value of the Foundation's Level 3 assets for the years ended June 30, 2010 and 2009:

	June 30, 2010					
	Real estate investment funds	Life insurance contracts	Real estate	Externally Managed Trusts	Other	Total
Balance, June 30, 2009	\$ 550,429	1,813,664	505,656	317,180	46,032	3,232,961
Realized losses	(53,803)	—	(60,000)	—	—	(113,803)
Unrealized losses	(433,673)	—	—	(179,920)	—	(613,593)
Contributions	—	—	27,500	—	—	27,500
Change in cash surrender value	—	102,679	—	—	—	102,679
Balance, June 30, 2010	<u>\$ 62,953</u>	<u>1,916,343</u>	<u>473,156</u>	<u>137,260</u>	<u>46,032</u>	<u>2,635,744</u>

	June 30, 2009					
	Real estate investment funds	Life insurance contracts	Real estate	Externally Managed Trusts	Other	Total
Balance, June 30, 2008	\$ 1,256,577	1,673,193	516,056	317,180	46,032	3,809,038
Realized losses	(46,802)	—	(10,400)	—	—	(57,202)
Unrealized losses	(659,346)	—	—	—	—	(659,346)
Change in cash surrender value	—	140,471	—	—	—	140,471
Balance, June 30, 2009	<u>\$ 550,429</u>	<u>1,813,664</u>	<u>505,656</u>	<u>317,180</u>	<u>46,032</u>	<u>3,232,961</u>

(4) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2010 and 2009:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,817,786	3,994,036
One year to five years	8,479,959	3,556,733
More than five years	54,680	193,879
	<u>12,352,425</u>	<u>7,744,648</u>
Less unamortized discounts ranging from 1.79% to 5.15%	<u>(723,038)</u>	<u>(640,650)</u>
	11,629,387	7,103,998
Less allowance for uncollectible pledges	<u>(522,574)</u>	<u>(805,603)</u>
	<u>\$ 11,106,813</u>	<u>6,298,395</u>

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(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, 2010 ranged from 1.79% to 3.91%. The discount rates as of June 30, 2009 ranged from 3.53% to 4.32%.

(6) Property and Equipment

Property and equipment are summarized as follows:

	<u>2010</u>	<u>2009</u>
Automobiles	\$ 45,469	45,469
Furniture and fixtures	6,556	66,872
Office equipment	6,816	9,374
Software	<u>467,268</u>	<u>432,633</u>
	526,109	554,348
Less accumulated depreciation	<u>(131,219)</u>	<u>(107,808)</u>
	<u>\$ 394,890</u>	<u>446,540</u>

(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 had a maturity date of December 11, 2009 and was renewed for another year with a maturity date of December 11, 2010. As of June 30, 2010 and 2009, the outstanding balance of the line was \$1,322,113 and \$1,474,503, respectively. The original line that matured December 11, 2009 bore 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). The renewed line maturing December 11, 2010 bears interest at a variable rate basis at the rate per annum equal to 1.55% over the one-month LIBOR index (1.90% at June 30, 2010). Interest expense incurred during the years ended June 30, 2010 and 2009 was \$27,779 and \$16,321, respectively, including accrued interest of \$1,454 and \$1,778 at June 30, 2010 and 2009, respectively.

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(8) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

	<u>2010</u>	<u>2009</u>
Student financial aid	\$ 16,664,710	10,532,324
Academic divisions	3,303,561	3,308,586
Research	352,760	407,075
Operation and maintenance of plant	2,332,762	4,020,228
Library	136,093	122,185
Athletics	378,131	307,226
Faculty and staff support	360,210	319,554
Other restricted purposes	7,103,287	5,982,195
Total	\$ <u>30,631,514</u>	<u>24,999,373</u>

(9) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2010 and 2009 have been categorized based on the donors' designation of the related investment income and are summarized as follows:

	<u>2010</u>	<u>2009</u>
Student financial aid	\$ 28,679,672	27,826,695
Academic divisions	4,162,144	3,994,702
Research	692,173	676,181
Operation and maintenance of plant	1,252,625	1,227,717
Library	2,919,600	2,896,691
Athletics	12,950	12,950
Faculty and staff support	6,308,903	6,167,858
Other restricted purposes	2,783,547	2,699,213
Total	\$ <u>46,811,614</u>	<u>45,502,007</u>

(10) Endowment Net Assets

The Foundation has over 760 individual funds which function as endowment-type funds that are established for operating and scholarship purposes. The endowment-type funds include both donor-restricted endowment-type funds and funds designated by the Foundation's 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.

The Foundation's Board of Directors has determined its donor agreements provide for the preservation of the fair value of the original gift as of the date of the 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. The remaining portion of the donor-restricted

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endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until the amounts are appropriated for expenditures in accordance with the donor agreements.

The Foundation has established investment policies to ensure the assets of the Foundation's endowment are managed in a prudent fashion in accordance with sound investment principles. The Foundation's Board of Directors sets and approves the investment policies and charges the Investment Committee with implementation and subsequent, ongoing monitoring of the policies. The Foundation's investment objectives for endowments are to provide a total return that preserves the purchasing power of the endowment's assets while providing sustainable annual support to the University. The primary performance objective of the endowment is to achieve a total return, net of investment fees and within prudent levels of risk, in excess of the total spending rate.

The Foundation's spending policy is designed to instill confidence that the positive growth in the market value of the endowment is sufficient to offset reasonable spending over an extended period of time. The spending policy is approved by the Foundation's Board of Directors. The spending rate was approximately 4% for the years ended June 30, 2010 and 2009. In addition, applicable endowment funds were assessed a 2% administrative fee. This fee is a portion of the funding for the development programs of the University. No portion of the original gift value of the endowed assets is allocated for spending.

During the years ended June 30, 2010 and 2009, 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, June 30, 2009	\$ 181,646	3,933,144	41,156,016	45,270,806
Contributions	113,231	59,666	1,060,001	1,232,898
Net investment income	1,107,774	2,488,052	109,133	3,704,959
Other (loss) income	(1,618)	1,885	—	267
Change in restriction by donor	(38,607)	(1,533)	150,532	110,392
Expenses	(164,345)	(710,799)	—	(875,144)
Transfers	(623,466)	72,736	256,193	(294,537)
Allocation of fund deficiencies in endowments related to investment losses	<u>1,000,584</u>	<u>(1,000,584)</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2010	\$ <u>1,575,199</u>	<u>4,842,567</u>	<u>42,731,875</u>	<u>49,149,641</u>

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 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>

At June 30, 2010 and 2009, 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	\$ —	4,842,567	42,731,875	47,574,442
Board-designated endowment-type funds	<u>1,575,199</u>	<u>—</u>	<u>—</u>	<u>1,575,199</u>
Endowment net assets, June 30, 2010	\$ <u>1,575,199</u>	<u>4,842,567</u>	<u>42,731,875</u>	<u>49,149,641</u>

	<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>

Due to unfavorable market fluctuations, the Foundation has endowments that have fallen below their original contribution value. At June 30, 2010 and 2009, the fair value of certain permanently restricted investments have gone below their original contribution value by \$1,537,988 and \$2,538,573, respectively, and this deficiency 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.

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(11) Related Party Transactions

The following contributed services, commodities, utilities, equipment, and facilities were received from the University during 2010 and 2009 and are reflected as unrestricted contributions and unrestricted expenses in the consolidated statements of activities.

	<u>2010</u>	<u>2009</u>
Wages and benefits	\$ 1,538,076	1,504,383
Contractual services	28,624	53,947
Commodities	439	40,108
Utilities	36,997	37,670
Facilities	98,480	96,144
Total	<u>\$ 1,702,616</u>	<u>1,732,252</u>

(12) 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, 2010 and 2009 is presented below.

	<u>2010</u>	<u>2009</u>
Total minimum lease payments to be received	\$ 1,675,697	1,889,266
Less unearned income	(290,637)	(356,915)
Net investment in direct financing lease	<u>\$ 1,385,060</u>	<u>1,532,351</u>

Future minimum lease payments to be received are as follows:

Year ending June 30:	
2011	\$ 197,141
2012	197,141
2013	197,141
2014	197,141
2015	197,141
Thereafter	689,992
	<u>\$ 1,675,697</u>

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(13) Lease Commitments

The Foundation leases certain automobiles under noncancelable operating lease agreements. Management expects that, in the normal course of business, leases which expire will be renewed or replaced by other similar leases.

At June 30, 2010, minimum rental commitments under noncancelable operating leases with original terms in excess of one year were as follows:

2011	\$	9,911
2012		<u>9,911</u>
Total future minimum lease payments	\$	<u><u>19,822</u></u>