



THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Directors
The University of Southern Mississippi Foundation:

We have audited the accompanying consolidated financial statements of The University of Southern Mississippi Foundation, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Southern Mississippi Foundation as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Jackson, Mississippi
October 29, 2014

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statements of Financial Position

June 30, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 8,260,263	3,443,807
Accrued earnings	108,915	128,945
Prepaid assets and other receivables (note 2)	1,447,102	191,436
Pledges receivable, net (note 3)	17,255,245	14,068,836
Investments (notes 4 and 5)	87,964,720	83,246,601
Amounts due from externally managed trusts (note 6)	856,903	744,271
Net investment in direct financing lease (note 7)	798,668	955,285
Property and equipment, net (note 8)	144,874	234,801
Total assets	<u>\$ 116,836,690</u>	<u>103,013,982</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 562,123	669,070
Line of credit (note 9)	—	782,113
Gift annuities payable	343,582	353,685
Total liabilities	<u>905,705</u>	<u>1,804,868</u>
Net assets:		
Unrestricted	5,128,785	4,735,798
Temporarily restricted (note 10)	51,563,139	41,477,728
Permanently restricted (note 11)	59,239,061	54,995,588
Total net assets	<u>115,930,985</u>	<u>101,209,114</u>
Total liabilities and net assets	<u>\$ 116,836,690</u>	<u>103,013,982</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,774,415	12,935,419	3,619,804	18,329,638
Net investment gain (note 4)	1,524,510	8,883,008	168,123	10,575,641
Change in value of split interest agreements	—	2,101	54,744	56,845
Other	44,973	29,943	111	75,027
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Total revenues, gains and other support	3,343,898	21,850,471	3,842,782	29,037,151
	<hr/>	<hr/>	<hr/>	<hr/>
Changes in restrictions:				
Change in restriction by donors	(93,935)	(306,756)	400,691	—
Net assets released from restrictions (note 12)	11,458,304	(11,458,304)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total changes in restrictions	11,364,369	(11,765,060)	400,691	—
	<hr/>	<hr/>	<hr/>	<hr/>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,732,008	—	—	11,732,008
	<hr/>	<hr/>	<hr/>	<hr/>
Total program services	11,732,008	—	—	11,732,008
	<hr/>	<hr/>	<hr/>	<hr/>
Supporting services:				
General and administrative	1,596,007	—	—	1,596,007
Fundraising	987,265	—	—	987,265
	<hr/>	<hr/>	<hr/>	<hr/>
Total supporting services	2,583,272	—	—	2,583,272
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	14,315,280	—	—	14,315,280
	<hr/>	<hr/>	<hr/>	<hr/>
Increase in net assets	392,987	10,085,411	4,243,473	14,721,871
Net assets at beginning of year	4,735,798	41,477,728	54,995,588	101,209,114
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 5,128,785	51,563,139	59,239,061	115,930,985
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See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,895,849	5,544,433	2,397,304	9,837,586
Net investment gain (note 4)	1,105,691	4,845,499	77,516	6,028,706
Change in value of split interest agreements	—	(836)	82,385	81,549
Other	73,117	39,644	70,662	183,423
	<u>3,074,657</u>	<u>10,428,740</u>	<u>2,627,867</u>	<u>16,131,264</u>
Changes in restrictions:				
Change in restriction by donors	1,831	(124,124)	122,293	—
Net assets released from restrictions (note 12)	8,497,903	(8,497,903)	—	—
	<u>8,499,734</u>	<u>(8,622,027)</u>	<u>122,293</u>	<u>—</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	8,987,404	—	—	8,987,404
	<u>8,987,404</u>	<u>—</u>	<u>—</u>	<u>8,987,404</u>
Supporting services:				
General and administrative	1,612,000	—	—	1,612,000
Fundraising	1,078,338	—	—	1,078,338
	<u>2,690,338</u>	<u>—</u>	<u>—</u>	<u>2,690,338</u>
Total supporting services	<u>2,690,338</u>	<u>—</u>	<u>—</u>	<u>2,690,338</u>
Total expenses	<u>11,677,742</u>	<u>—</u>	<u>—</u>	<u>11,677,742</u>
Increase (decrease) in net assets	(103,351)	1,806,713	2,750,160	4,453,522
Net assets at beginning of year	4,839,149	39,671,015	52,245,428	96,755,592
Net assets at end of year	\$ <u>4,735,798</u>	<u>41,477,728</u>	<u>54,995,588</u>	<u>101,209,114</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 14,721,871	4,453,522
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	125,821	112,549
Loss on disposal of property and equipment	2,888	—
Fair value of donated assets	—	(230,000)
Realized and unrealized gains on investments, net	(8,994,839)	(4,568,734)
Permanently restricted contributions	(2,325,549)	(2,462,000)
Permanently restricted dividends and interest	(14,749)	(16,059)
Change in amounts due from externally managed trusts	(112,632)	548,137
Change in gift annuities and pooled income fund	(48,455)	(35,153)
Present value adjustments to annuities	42,883	10,252
Changes in operating assets and liabilities:		
Accrued earnings	20,030	63,634
Prepaid assets and other receivables	(1,255,666)	519,077
Pledges receivable, net	(3,186,409)	3,536,942
Accounts payable	(106,947)	561,947
Net cash (used in) provided by operating activities	<u>(1,131,753)</u>	<u>2,494,114</u>
Cash flows from investing activities:		
Purchases of property and equipment	(71,841)	(85,164)
Proceeds from sale of property and equipment	33,059	—
Purchases of investments	(19,213,136)	(110,013,035)
Proceeds from sales and maturities of investments	23,538,311	103,674,451
Principal payments received under direct financing lease	156,617	149,739
Net cash provided by (used in) investing activities	<u>4,443,010</u>	<u>(6,274,009)</u>
Cash flows from financing activities:		
Principal payments on line of credit	(782,113)	(175,000)
Permanently restricted contributions	2,325,549	2,462,000
Permanently restricted dividends and interest	14,749	16,059
Change in investments subject to annuity agreements	—	(63,769)
Annuity payments	(52,986)	(49,650)
Net cash provided by financing activities	<u>1,505,199</u>	<u>2,189,640</u>
Net increase (decrease) in cash and cash equivalents	4,816,456	(1,590,255)
Cash and cash equivalents at beginning of year	<u>3,443,807</u>	<u>5,034,062</u>
Cash and cash equivalents at end of year	<u>\$ 8,260,263</u>	<u>3,443,807</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,823	15,427

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(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 13).

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, only a portion of the income earned on related investments may be expended 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. 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 risks involved. Amortization of the discount is recorded 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

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

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 in all other cases and released from restriction when expended in accordance with donor agreements.

(c) *Use of Estimates*

The Foundation prepares its consolidated 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 allowance for uncollectible pledges, the fair market value of certain real estate, depreciation of property and equipment, and the present value discount applied to pledges receivable, the present value of externally managed trusts and the liabilities for gift annuity contracts. Actual results could differ significantly from those estimates.

The Foundation's investments are held in various types of investment securities across a variety of 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 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.

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

(e) *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, 2014 and 2013, 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

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

fair value of real estate is based on recent appraisals. Transactions are accounted for on a trade date basis.

(f) Pledges

All unconditional pledges to give are recorded at their estimated realizable value on a discounted basis at rates commensurate with the risks involved. 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.

(g) Split Interest Agreements

The Foundation accepts gifts subject to split interest agreements. These gifts may be 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 are recorded when the Foundation is the trustee, as is the case with gift annuities, and are calculated as the present value of projected future distributions to the annuity beneficiaries using a designated discount rate. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted net assets based upon donor designations.

(h) 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.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of June 30, 2014 and 2013, there were no material uncertain tax positions.

(i) Liquidity

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

(j) Cash Equivalents

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

(k) 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 13).

(l) Fair Value Measurements

The Foundation applies 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

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

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 5). The Foundation applies 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, ASU 2009-12 permits entities to estimate the fair value of an investment using net asset value without further adjustment as of the reporting entity's measurement date. The Foundation's investments reported at net asset value relate to investments in real estate investment funds totaling \$2,111,592 and \$10,286 at June 30, 2014 and 2013, respectively. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to FASB ASC 820.

(m) Subsequent Events

The Foundation has evaluated subsequent events through October 29, 2014, the date the consolidated financial statements were available to be issued. The Foundation does not believe there are any material subsequent events which would require disclosure.

(n) Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 presentation. The reclassifications did not affect total net assets.

(2) Prepaid Assets and Other Receivables

At June 30, 2014, the balance in prepaid assets and other receivables was mainly comprised of the balance receivable from a matured revocable charitable remainder trust of approximately \$1,300,000.

(3) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,766,855	4,669,007
One year to five years	12,229,484	10,210,498
More than five years	<u>98,769</u>	<u>121,344</u>
	18,095,108	15,000,849
Less allowance for uncollectible pledges	(295,000)	(540,000)
Less unamortized discounts ranging from 0.72% to 5.15%	<u>(544,863)</u>	<u>(392,013)</u>
Total	<u>\$ 17,255,245</u>	<u>14,068,836</u>

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(4) Investments

Investments are summarized as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fixed income:		
U.S. Government securities	\$ 2,776,460	4,001,986
Corporate bonds	6,008,760	5,069,639
Mutual funds	25,223,504	27,480,999
Index funds	—	15,233
Other fixed income securities	3,699,367	3,246,868
Total fixed income	<u>37,708,091</u>	<u>39,814,725</u>
Equities:		
Common stocks	—	123,381
Mutual and common stock funds	45,681,935	40,784,638
Index funds	—	95,919
Total equities	<u>45,681,935</u>	<u>41,003,938</u>
Alternative investments:		
Real estate owned	90,000	102,000
Real estate investment funds	2,111,592	43,179
Total alternative investments	<u>2,201,592</u>	<u>145,179</u>
Cash surrender value of insurance policies	2,327,070	2,236,727
Other	46,032	46,032
Total investments	<u>\$ 87,964,720</u>	<u>83,246,601</u>

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, 2014 and 2013 with a fair value of \$426,902 and \$463,994, respectively.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The following schedule summarizes net investment gain (loss) and related net asset classification in the consolidated statements of activities:

2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$256,993)	\$ 1,459,541	106,512	14,749	1,580,802
Realized gains (losses), net	(159,891)	1,911,399	4,641	1,756,149
Unrealized gains, net	224,860	6,865,097	148,733	7,238,690
Total	<u>\$ 1,524,510</u>	<u>8,883,008</u>	<u>168,123</u>	<u>10,575,641</u>

2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$309,719)	\$ 1,314,641	129,272	16,059	1,459,972
Realized gains, net	62,761	9,482,679	120,814	9,666,254
Unrealized losses, net	(271,711)	(4,766,452)	(59,357)	(5,097,520)
Total	<u>\$ 1,105,691</u>	<u>4,845,499</u>	<u>77,516</u>	<u>6,028,706</u>

(5) 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 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 other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The following is a description of the valuation methodologies used for investments measured at fair value on a recurring basis.

Mutual and common stock funds, fixed income mutual funds, U.S. Government securities, common stocks and index funds

Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds

Valued based on inputs corroborated by observable market data.

Other fixed income securities

Valued at either the closing price reported on the active market on which the individual securities are traded or based on inputs corroborated by observable market data.

Real estate investment funds

At June 30, 2013, \$32,893 are publicly traded and are valued at the closing price reported on the active market on which the individual securities are traded. In addition, at June 30, 2014 and 2013, \$2,111,592 and \$10,286, respectively, are valued at the net asset value of underlying investments as determined by the fund managers. The Foundation's management also takes into consideration the audited financial information to determine overall reasonableness of the recorded value.

Cash surrender value of insurance policies

Valued at the cash surrender value of the life insurance contract as determined by the life insurance company.

Real estate owned and other

Valued on the basis of recent appraisals.

At June 30, 2014 and 2013, 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.

The following is a description of the valuation methodologies used for other assets and liabilities measured at fair value.

Amounts due from externally managed trusts

Valued based on the present value of the estimated future cash receipts from the assets of the trust using appropriate discount rates.

Gift annuities payable

Valued based on the present value of projected future distributions to the annuity beneficiaries using appropriate discount rates.

The methods described above may produce a fair value measurement 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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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The following tables set forth by level, within the fair value hierarchy, the Foundation's classification of assets and liabilities at fair value or net asset value described on the previous page as of June 30, 2014 and 2013:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments:				
Fixed income:				
U.S. Government securities	\$ 2,776,460	—	—	2,776,460
Corporate bonds	—	6,008,760	—	6,008,760
Mutual funds	25,223,504	—	—	25,223,504
Other fixed income securities	997,530	2,701,837	—	3,699,367
Total fixed income	<u>28,997,494</u>	<u>8,710,597</u>	<u>—</u>	<u>37,708,091</u>
Equities:				
Mutual and common stock funds	45,681,935	—	—	45,681,935
Total equities	<u>45,681,935</u>	<u>—</u>	<u>—</u>	<u>45,681,935</u>
Alternative investments:				
Real estate owned	—	—	90,000	90,000
Real estate investment funds	—	2,111,592	—	2,111,592
Total alternative investments	<u>—</u>	<u>2,111,592</u>	<u>90,000</u>	<u>2,201,592</u>
Cash surrender value of insurance policies	—	—	2,327,070	2,327,070
Other	—	—	46,032	46,032
Total investments	<u>\$ 74,679,429</u>	<u>10,822,189</u>	<u>2,463,102</u>	<u>87,964,720</u>
Amounts due from externally managed trusts	<u>\$ —</u>	<u>—</u>	<u>856,903</u>	<u>856,903</u>
Gift annuities payable	<u>\$ —</u>	<u>—</u>	<u>343,582</u>	<u>343,582</u>

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	June 30, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Fixed income:				
U.S. Government securities	\$ 4,001,986	—	—	4,001,986
Corporate bonds	—	5,069,639	—	5,069,639
Mutual funds	27,480,999	—	—	27,480,999
Index funds	15,233	—	—	15,233
Other fixed income securities	—	3,246,868	—	3,246,868
Total fixed income	<u>31,498,218</u>	<u>8,316,507</u>	<u>—</u>	<u>39,814,725</u>
Equities:				
Common stocks	123,381	—	—	123,381
Mutual and common stock funds	40,784,638	—	—	40,784,638
Index funds	95,919	—	—	95,919
Total equities	<u>41,003,938</u>	<u>—</u>	<u>—</u>	<u>41,003,938</u>
Alternative investments:				
Real estate owned	—	—	102,000	102,000
Real estate investment funds	32,893	—	10,286	43,179
Total alternative investments	<u>32,893</u>	<u>—</u>	<u>112,286</u>	<u>145,179</u>
Cash surrender value of insurance policies	—	—	2,236,727	2,236,727
Other	—	—	46,032	46,032
Total investments	<u>\$ 72,535,049</u>	<u>8,316,507</u>	<u>2,395,045</u>	<u>83,246,601</u>
Amounts due from externally managed trusts	<u>\$ —</u>	<u>—</u>	<u>744,271</u>	<u>744,271</u>
Gift annuities payable	<u>\$ —</u>	<u>—</u>	<u>353,685</u>	<u>353,685</u>

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Level 3 Activity

The tables below set forth a summary of activity in the fair value or net asset value of the assets and liabilities classified as Level 3 for the years ended June 30, 2014 and 2013:

Investments:

	2014				
	Real estate investment funds	Life insurance policies	Real estate	Other	Total
	Balance, beginning of year	\$ 10,286	2,236,727	102,000	46,032
Dispositions	(8,284)	—	(2,500)	—	(10,784)
Realized losses	(32,313)	—	(9,500)	—	(41,813)
Unrealized gains	30,311	—	—	—	30,311
Change in cash surrender value	—	90,343	—	—	90,343
Balance, end of year	\$ —	2,327,070	90,000	46,032	2,463,102

	2013				
	Real estate investment funds	Life insurance policies	Real estate	Other	Total
	Balance, beginning of year	\$ 144,349	2,135,638	247,500	46,032
Acquisitions	—	—	230,000	—	230,000
Dispositions	(160,226)	—	(251,331)	—	(411,557)
Realized losses	(541,541)	—	(124,169)	—	(665,710)
Unrealized gains	567,704	—	—	—	567,704
Change in cash surrender value	—	101,089	—	—	101,089
Balance, end of year	\$ 10,286	2,236,727	102,000	46,032	2,395,045

Amounts due from externally managed trusts:

	2014	2013
Balance, beginning of year	\$ 744,271	1,292,408
Additions	150,013	—
Distributions	(80,328)	(485,999)
Change in valuation	42,947	(62,138)
Balance, end of year	\$ 856,903	744,271

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Gift annuities payable:	2014	2013
Balance, beginning of year	\$ 353,685	456,852
Change in valuation	42,883	10,252
Annuity payments	(52,986)	(49,650)
Terminations	—	(63,769)
Balance, end of year	\$ 343,582	353,685

The following describes the valuation of other financial instruments that are not carried at fair value on a recurring basis:

Cash and cash equivalents, other receivables and payables

The carrying amounts of cash and cash equivalents, accrued earnings, other receivables, and accounts payable approximate fair value because of the short-term maturity of these instruments.

Pledges receivable

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

Line of credit

The carrying amount of the line of credit approximates fair value because the variable interest rate approximates the current rates at which similar lines of credit could be obtained from lenders and is classified as Level 2 in the fair value hierarchy.

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(6) Amounts Due From Externally Managed Trusts

Amounts due from 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, 2014 ranged from 1.62% to 3.34%. The discount rates as of June 30, 2013 ranged from 1.41% to 3.52%.

(7) 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, 2014 and 2013 is presented below.

	<u>2014</u>	<u>2013</u>
Total minimum lease payments to be received	\$ 887,134	1,084,274
Less unearned income	(88,466)	(128,989)
Net investment in direct financing lease	<u>\$ 798,668</u>	<u>955,285</u>

Future minimum lease payments to be received are as follows:

Year ending June 30:	
2015	\$ 197,141
2016	197,141
2017	197,141
2018	197,141
2019	<u>98,570</u>
Total	<u>\$ 887,134</u>

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(8) Property and Equipment

Property and equipment are summarized as follows:

	2014	2013
Automobiles	\$ 182,662	155,291
Office equipment	16,072	16,072
Software	467,268	467,268
	666,002	638,631
Less accumulated depreciation	(521,128)	(403,830)
Total	\$ 144,874	234,801

(9) Line of Credit

In December 2008, the Foundation entered into a revolving line of credit facility with JPMorgan Chase Bank, NA, which was secured by an investment account held by the Foundation, to purchase an aircraft for lease to the University. The line of credit initially allowed for borrowings up to \$1,600,000. The line of credit was renewed December 7, 2012, for an additional year, allowing for borrowings up to \$1,000,000, with a maturity date of December 6, 2013. As of June 30, 2013, the outstanding balance of the line of credit was \$782,113 with interest at a variable rate basis at the rate per annum equal to 1.50% over the LIBOR index which was 1.69% at June 30, 2013. Interest expense incurred during the years ended June 30, 2014 and 2013, was \$896 and \$15,248, respectively, including accrued interest of \$927 at June 30, 2013. The line of credit was paid in full during 2014 and was not subsequently renewed.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 were available for the following purposes:

	2014	2013
Student financial aid	\$ 24,085,183	14,375,066
Academic divisions	3,506,414	3,266,465
Research	239,098	247,389
Operation and maintenance of plant	13,248,857	16,173,877
Library	751,121	432,571
Athletics	370,491	402,537
Faculty and staff support	2,445,051	1,331,395
Other restricted purposes	6,916,924	5,248,428
Total	\$ 51,563,139	41,477,728

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(11) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 and 2013 were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Student financial aid	\$ 36,124,736	34,045,240
Academic divisions	5,466,060	4,285,115
Research	93,512	88,517
Operation and maintenance of plant	1,636,891	1,245,153
Library	2,966,476	2,955,052
Faculty and staff support	9,602,336	9,287,407
Other restricted purposes	<u>3,349,050</u>	<u>3,089,104</u>
Total	<u>\$ 59,239,061</u>	<u>54,995,588</u>

(12) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. All net assets released from restrictions were for the benefit of the University. Net assets released from restrictions consist of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Student financial aid	\$ 3,468,964	3,172,528
Academic divisions	923,753	673,882
Research	27,005	12,846
Faculty and staff support	174,951	77,852
Operation and maintenance of plant	4,995,333	3,100,240
Library	158,291	49,250
Athletics	46,598	59,777
Other restricted purposes	<u>1,663,409</u>	<u>1,351,528</u>
Total	<u>\$ 11,458,304</u>	<u>8,497,903</u>

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(13) Related Party Transactions

The following contributed services, commodities, utilities, equipment and facilities were received from the University during 2014 and 2013 and are reflected as unrestricted contributions and unrestricted expenses in the consolidated statements of activities.

	<u>2014</u>	<u>2013</u>
Wages and benefits	\$ 1,386,298	1,455,192
Contractual services	12,568	16,194
Commodities and equipment	12,199	8,573
Utilities	12,471	15,894
Facilities	109,081	102,530
Total	<u>\$ 1,532,617</u>	<u>1,598,383</u>

(14) Endowment Net Assets

At June 30, 2014, the Foundation has 838 individual funds which function as endowment funds that are established for a variety of purposes to support the University. The endowment funds include both donor-restricted endowment 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 FASB 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. The Mississippi legislature enacted House Bill 1104 adopting UPMIFA during the 2012 legislative session. The legislation was effective July 1, 2012.

The Foundation's Board of Directors has reviewed the terms of UPMIFA as enacted by the Mississippi legislature and has determined that its donor agreements for permanent endowments provide for the preservation of the original gift 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 endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until the amounts are expended 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 and UPMIFA. 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. In considering the investment management and expenditures of endowment funds, the Board utilizes the reasonable care, skill and caution of a prudent investor. The Foundation's investment objectives for endowments are to provide a

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real total return that preserves the purchasing power of the endowment's assets while generating an income stream to support the University. The primary performance objective of the endowment is to earn a total return, net of investment fees, within prudent levels of risk, equal to or greater than the spending rate plus administrative fees and the desired rate of growth.

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. In accordance with UPMIFA, the Board may expend as much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund was established. The target spending rate was approximately 4% for the years ended June 30, 2014 and 2013. In addition, applicable endowment funds were assessed a 1.75% administrative fee. This fee provides a significant portion of the funding for the development programs of the Foundation. No portion of the original gift value of permanent endowments is allocated for spending or charged a fee.

During the years ended June 30, 2014 and 2013, the Foundation had the following endowment related activities:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	\$ 1,467,429	15,482,528	51,912,668	68,862,625
Contributions	16,105	57,369	2,224,069	2,297,543
Net investment gain	238,861	8,811,755	107,695	9,158,311
Other income (loss)	2,379	14	125	2,518
Change in restriction by donors	(7,354)	(83,111)	332,790	242,325
Expenses	(51,580)	(2,058,484)	—	(2,110,064)
Transfers	175,535	(12,210)	56,252	219,577
Endowment net assets, June 30, 2014	\$ <u>1,841,375</u>	<u>22,197,861</u>	<u>54,633,599</u>	<u>78,672,835</u>

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	\$ 1,610,165	11,814,987	48,021,737	61,446,889
Contributions	64,788	53,438	2,471,151	2,589,377
Net investment gain	169,751	4,911,158	74,739	5,155,648
Other income (loss)	(2,241)	1,690	919	368
Change in restriction by donors	(1,466)	61,145	153,211	212,890
Expenses	(338,546)	(1,364,373)	—	(1,702,919)
Transfers	(35,022)	4,483	1,190,911	1,160,372
Endowment net assets, June 30, 2013	\$ <u>1,467,429</u>	<u>15,482,528</u>	<u>51,912,668</u>	<u>68,862,625</u>

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At June 30, 2014 and 2013, 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 funds	\$ —	22,197,861	54,633,599	76,831,460
Board-designated endowment funds	<u>1,841,375</u>	<u>—</u>	<u>—</u>	<u>1,841,375</u>
Endowment net assets, June 30, 2014	\$ <u><u>1,841,375</u></u>	<u><u>22,197,861</u></u>	<u><u>54,633,599</u></u>	<u><u>78,672,835</u></u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	15,482,528	51,912,668	67,395,196
Board-designated endowment funds	<u>1,467,429</u>	<u>—</u>	<u>—</u>	<u>1,467,429</u>
Endowment net assets, June 30, 2013	\$ <u><u>1,467,429</u></u>	<u><u>15,482,528</u></u>	<u><u>51,912,668</u></u>	<u><u>68,862,625</u></u>

When unfavorable market fluctuations cause the fair value of certain donor-restricted endowments to be less than the historical cost (original gift/book value) of such funds, the fund is said to be underwater, and this deficiency is recorded in unrestricted net assets. At June 30, 2014 and 2013, there were no endowments that were underwater.