



THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Financial Statements

June 30, 2011 and 2010

(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 statements of financial position of The University of Southern Mississippi Foundation (the Foundation) as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 26, 2011

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 2,492,825	6,287,959
Accrued interest	125,819	142,641
Prepaid assets and other receivables	272,750	145,485
Amounts due from brokers	—	176,967
Pledges receivable, net (note 2)	8,860,282	11,106,813
Investments (notes 3 and 4)	76,190,180	61,044,099
Present value of amounts due from externally managed trusts (note 5)	1,305,074	1,453,640
Net investment in direct financing lease (note 13)	1,248,186	1,385,060
Property and equipment, net (note 6)	371,008	394,890
Total assets	\$ 90,866,124	82,137,554
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 309,620	402,740
Line of credit (note 7)	1,172,113	1,322,113
Amounts due to brokers	280	—
Gift annuities payable	414,887	402,111
Liability for amounts held for others	1,410	3,524
Total liabilities	1,898,310	2,130,488
Net assets:		
Unrestricted	4,670,327	2,563,938
Temporarily restricted (note 9)	35,074,757	30,631,514
Permanently restricted (note 10)	49,222,730	46,811,614
Total net assets	88,967,814	80,007,066
Total liabilities and net assets	\$ 90,866,124	82,137,554

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,582,875	3,277,734	1,526,358	6,386,967
Net investment gain (note 3)	3,079,444	8,135,261	204,047	11,418,752
Change in value of split interest agreements	—	3,076	127,570	130,646
Other	113,143	99,154	130,669	342,966
Change in restriction by donor	(149,198)	(273,274)	422,472	—
Net assets released from restrictions (note 8)	<u>6,798,708</u>	<u>(6,798,708)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>11,424,972</u>	<u>4,443,243</u>	<u>2,411,116</u>	<u>18,279,331</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	<u>6,974,473</u>	<u>—</u>	<u>—</u>	<u>6,974,473</u>
Total program services	<u>6,974,473</u>	<u>—</u>	<u>—</u>	<u>6,974,473</u>
Supporting services:				
General and administrative	<u>1,459,219</u>	<u>—</u>	<u>—</u>	<u>1,459,219</u>
Fund raising	<u>884,891</u>	<u>—</u>	<u>—</u>	<u>884,891</u>
Total supporting services	<u>2,344,110</u>	<u>—</u>	<u>—</u>	<u>2,344,110</u>
Total expenses	<u>9,318,583</u>	<u>—</u>	<u>—</u>	<u>9,318,583</u>
Increase in net assets	2,106,389	4,443,243	2,411,116	8,960,748
Net assets at beginning of year	<u>2,563,938</u>	<u>30,631,514</u>	<u>46,811,614</u>	<u>80,007,066</u>
Net assets at end of year	<u>\$ 4,670,327</u>	<u>35,074,757</u>	<u>49,222,730</u>	<u>88,967,814</u>

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 3)	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 (note 8)	<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	<u>1,584,974</u>	<u>—</u>	<u>—</u>	<u>1,584,974</u>
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 Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 8,960,748	8,231,607
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	99,278	78,224
Loss on disposal of property and equipment	687	8,060
Fair value of donated assets	(267,349)	(27,500)
Loss on disposal of donated assets	84,156	—
Realized and unrealized gains on investments, net	(10,020,767)	(3,097,082)
Permanently restricted contributions	(1,877,835)	(1,324,526)
Permanently restricted dividends and interest	(17,289)	(16,533)
Change in externally managed trusts	148,566	122,336
Change in gift annuities and pooled income fund	(14,551)	(40,141)
Present value adjustments to annuities	32,533	44,681
Changes in operating assets and liabilities:		
Accrued interest	16,822	56,385
Prepaid assets and other receivables	(1,916)	97,640
Advances to The University of Southern Mississippi	—	360,275
Pledges receivable, net	2,246,531	(4,808,418)
Accounts payable	(93,120)	(61,946)
Liability for amounts held for others	(2,114)	(4,353)
Net cash used in operating activities	<u>(705,620)</u>	<u>(381,291)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(76,083)	(34,634)
Change in cash surrender value of life insurance	(177,837)	(102,679)
Purchases of investments	(27,849,196)	(28,329,948)
Change in amounts due to/from brokers	177,247	(225,358)
Proceeds from sales and maturities of investments	22,974,114	13,065,000
Principal payments received under direct financing lease	136,874	147,291
Net cash used in investing activities	<u>(4,814,881)</u>	<u>(15,480,328)</u>
Cash flows from financing activities:		
Principal payments on line of credit	(150,000)	(152,390)
Permanently restricted contributions	1,877,835	1,324,526
Permanently restricted dividends and interest	17,289	16,533
Investments subject to annuity agreements, net	32,498	—
Annuity payments	(52,255)	(52,756)
Net cash provided by financing activities	<u>1,725,367</u>	<u>1,135,913</u>
Net decrease in cash and cash equivalents	<u>(3,795,134)</u>	<u>(14,725,706)</u>
Cash and cash equivalents at beginning of year	<u>6,287,959</u>	<u>21,013,665</u>
Cash and cash equivalents at end of year	\$ <u><u>2,492,825</u></u>	\$ <u><u>6,287,959</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 23,296	28,103

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(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. 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 as contribution revenue and recognized in accordance with donor-imposed restrictions, if any, on the

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

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 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 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) *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

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

for an amount different from net asset value. At June 30, 2011 and 2010, 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.

(f) Pledges

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

(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 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.

(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.

(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 12).

(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 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

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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 4). 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, 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, the Foundation's only investment reported at net asset value related to an investment in a real estate investment fund with a balance of \$62,953. At June 30, 2011, the Foundation did not have any assets reported at net asset value. 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 26, 2011, 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 2011 consolidated financial statements to conform to the 2010 presentation. The reclassifications did not affect total net assets.

(2) Pledges Receivable

Pledges receivable, net, are summarized as follows at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,629,451	3,817,786
One year to five years	5,791,807	8,479,959
More than five years	<u>403,569</u>	<u>54,680</u>
	9,824,827	12,352,425
Less unamortized discounts ranging from 1.76% to 5.15%	<u>(537,478)</u>	<u>(723,038)</u>
	9,287,349	11,629,387
Less allowance for uncollectible pledges	<u>(427,067)</u>	<u>(522,574)</u>
Total	<u>\$ 8,860,282</u>	<u>11,106,813</u>

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June 30, 2011 and 2010

(3) Investments

Investments are summarized as follows at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Investment Strategy:		
Fixed Income:		
U.S. Government securities	\$ 7,895,734	10,585,067
Corporate bonds	4,756,277	4,369,727
Mutual funds	7,203,164	10,154,405
Index funds	540,587	522,362
Total fixed income	<u>20,395,762</u>	<u>25,631,561</u>
Equities:		
Common stocks	10,719,857	13,861,210
Mutual and common stock funds	26,207,136	12,757,479
Index funds	6,037,327	4,530,767
Total equities	<u>42,964,320</u>	<u>31,149,456</u>
Alternative investments:		
Hedge funds	3,619,840	—
Commodity funds	3,174,884	108,295
Real estate owned	474,500	473,156
Real estate investment funds	3,420,662	1,719,256
Total alternative investments	<u>10,689,886</u>	<u>2,300,707</u>
Cash surrender value of insurance policies	2,094,180	1,916,343
Other	46,032	46,032
Total investments	<u>\$ 76,190,180</u>	<u>61,044,099</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, 2011 and 2010 with a fair value of \$631,983 and \$535,428, respectively.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

The following schedule summarizes net investment gain and its classification in the consolidated statements of activities:

2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$365,267)	\$ 1,231,978	148,718	17,289	1,397,985
Realized (losses) gains, net	(14,814)	690,036	10,501	685,723
Unrealized gains, net	1,862,280	7,296,507	176,257	9,335,044
Total	<u>\$ 3,079,444</u>	<u>8,135,261</u>	<u>204,047</u>	<u>11,418,752</u>

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
Total	<u>\$ 2,054,658</u>	<u>2,001,026</u>	<u>111,464</u>	<u>4,167,148</u>

(4) 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 inputs 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.

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

Mutual and common stock funds, index funds, hedge funds and commodity funds, U.S. Government securities, corporate bonds and common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Real estate investment funds: At June 30, 2011 and 2010, \$3,420,662 and \$1,656,303, respectively, 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, 2010, \$62,953 is 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. At June 30, 2011, the Foundation did not have any assets reported at net asset 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.

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, 2011 and 2010:

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ 7,895,734	—	—	7,895,734
Corporate bonds	4,756,277	—	—	4,756,277
Mutual funds	7,203,164	—	—	7,203,164
Index funds	540,587	—	—	540,587
Total fixed income	<u>20,395,762</u>	<u>—</u>	<u>—</u>	<u>20,395,762</u>
Equities:				
Common stocks	10,719,857	—	—	10,719,857
Mutual and common stock funds	26,207,136	—	—	26,207,136
Index funds	6,037,327	—	—	6,037,327
Total equities	<u>42,964,320</u>	<u>—</u>	<u>—</u>	<u>42,964,320</u>
Alternative investments:				
Hedge funds	3,619,840	—	—	3,619,840
Commodity funds	3,174,884	—	—	3,174,884
Real estate owned	—	—	474,500	474,500
Real estate investment funds	3,420,662	—	—	3,420,662
Total alternative investments	<u>10,215,386</u>	<u>—</u>	<u>474,500</u>	<u>10,689,886</u>
Cash surrender value of insurance policies	—	—	2,094,180	2,094,180
Other	—	—	46,032	46,032
Total investments	<u>\$ 73,575,468</u>	<u>—</u>	<u>2,614,712</u>	<u>76,190,180</u>
Present value of amounts due from externally managed trusts*	\$ —	1,305,074	—	1,305,074

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	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ 10,585,067	—	—	10,585,067
Corporate bonds	4,369,727	—	—	4,369,727
Mutual funds	10,154,405	—	—	10,154,405
Index funds	522,362	—	—	522,362
Total fixed income	<u>25,631,561</u>	<u>—</u>	<u>—</u>	<u>25,631,561</u>
Equities:				
Common stocks	13,861,210	—	—	13,861,210
Mutual and common stock funds	12,757,479	—	—	12,757,479
Index funds	4,530,767	—	—	4,530,767
Total equities	<u>31,149,456</u>	<u>—</u>	<u>—</u>	<u>31,149,456</u>
Alternative investments:				
Commodity funds	108,295	—	—	108,295
Real estate owned	—	—	473,156	473,156
Real estate investment funds	1,656,303	—	62,953	1,719,256
Total alternative investments	<u>1,764,598</u>	<u>—</u>	<u>536,109</u>	<u>2,300,707</u>
Cash surrender value of insurance policies	—	—	1,916,343	1,916,343
Other	—	—	46,032	46,032
Total investments	<u>\$ 58,545,615</u>	<u>—</u>	<u>2,498,484</u>	<u>61,044,099</u>
Present value of amounts due from externally managed trusts*	\$ —	1,316,380	137,260	1,453,640

* At June 30, 2011 and 2010, the present value of amounts due from externally managed trusts primarily consisted of mutual funds. Real estate, classified as a Level 3 investment, totaling \$137,260 at June 30, 2010, was also included in the present value of amounts due from externally managed trusts.

At June 30, 2011 and 2010, 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, 2011 and 2010:

	June 30, 2011					
	Real estate investment funds	Life insurance contracts	Real estate	Externally Managed Trusts	Other	Total
Balance, June 30, 2010	\$ 62,953	1,916,343	473,156	137,260	46,032	2,635,744
Acquisitions	—	—	142,000	—	—	142,000
Dispositions	—	—	(84,156)	(130,000)	—	(214,156)
Realized losses	(62,953)	—	(56,500)	(7,260)	—	(126,713)
Change in cash surrender value	—	177,837	—	—	—	177,837
Balance, June 30, 2011	\$ —	2,094,180	474,500	—	46,032	2,614,712

	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
Acquisitions	—	—	27,500	—	—	27,500
Realized losses	(53,803)	—	(60,000)	—	—	(113,803)
Unrealized losses	(433,673)	—	—	(179,920)	—	(613,593)
Change in cash surrender value	—	102,679	—	—	—	102,679
Balance, June 30, 2010	\$ 62,953	1,916,343	473,156	137,260	46,032	2,635,744

(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, 2011 ranged from 1.76% to 4.38%. The discount rates as of June 30, 2010 ranged from 1.79% to 3.91%.

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(6) Property and Equipment

Property and equipment are summarized as follows:

	<u>2011</u>	<u>2010</u>
Automobiles	\$ 81,748	45,469
Furniture and fixtures	—	6,556
Office equipment	11,956	6,816
Software	467,268	467,268
	<u>560,972</u>	<u>526,109</u>
Less accumulated depreciation	<u>(189,964)</u>	<u>(131,219)</u>
Total	<u>\$ 371,008</u>	<u>394,890</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, 2010 and was renewed for another year with a maturity date of December 11, 2011. As of June 30, 2011 and 2010, the outstanding balance of the line was \$1,172,113 and \$1,322,113, respectively. The line maturing December 11, 2010 bore 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). The renewed line of credit maturing December 11, 2011 bears interest at a variable rate basis at the rate per annum equal to 1.55% over the one-month LIBOR index (1.74% at June 30, 2011). Interest expense incurred during the years ended June 30, 2011 and 2010 was \$23,146 and \$27,779, respectively, including accrued interest of \$1,303 and \$1,454 at June 30, 2011 and 2010, respectively.

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(8) 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 at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Student financial aid	\$ 3,530,413	2,961,674
Academic divisions	708,706	587,077
Research	46,370	112,043
Faculty and staff support	84,126	59,725
Operation and maintenance of plant	414,513	1,860,429
Library	429,308	18,122
Athletics	64,826	28,379
Other restricted purposes	<u>1,520,446</u>	<u>943,595</u>
Total	<u>\$ 6,798,708</u>	<u>6,571,044</u>

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Student financial aid	\$ 19,121,921	16,664,710
Academic divisions	3,673,589	3,303,561
Research	468,807	352,760
Operation and maintenance of plant	3,133,264	2,332,762
Library	317,670	136,093
Athletics	424,458	378,131
Faculty and staff support	1,073,838	360,210
Other restricted purposes	<u>6,861,210</u>	<u>7,103,287</u>
Total	<u>\$ 35,074,757</u>	<u>30,631,514</u>

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(10) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 and 2010 were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Student financial aid	\$ 30,525,054	28,679,672
Academic divisions	4,156,083	4,162,144
Research	708,026	692,173
Operation and maintenance of plant	1,184,262	1,252,625
Library	2,930,562	2,919,600
Athletics	—	12,950
Faculty and staff support	7,368,661	6,308,903
Other restricted purposes	2,350,082	2,783,547
Total	<u>\$ 49,222,730</u>	<u>46,811,614</u>

(11) Endowment Net Assets

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. As of June 30, 2011, the State of Mississippi had not yet adopted UPMIFA.

At June 30, 2011, the Foundation has approximately 800 individual funds which function as endowment-type funds that are established for a variety of purposes to support the University. 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 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

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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, 2011 and 2010. 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 Foundation. No portion of the original gift value of the endowed assets is allocated for spending.

During the years ended June 30, 2011 and 2010, 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, 2010	\$ 1,575,199	4,842,567	42,731,875	49,149,641
Contributions	10,176	29,625	1,374,134	1,413,935
Net investment income	3,135,848	7,330,540	197,190	10,663,578
Other income (loss)	670	(158)	11,757	12,269
Change in restriction by donor	(147,698)	(48,197)	518,131	322,236
Expenses	(57,189)	(1,267,585)	—	(1,324,774)
Transfers	(1,849,117)	1,547	355,828	(1,491,742)
Endowment net assets, June 30, 2011	\$ <u>2,667,889</u>	<u>10,888,339</u>	<u>45,188,915</u>	<u>58,745,143</u>

	<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	1,000,584	(1,000,584)	—	—
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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At June 30, 2011 and 2010, 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	\$ —	10,888,339	45,188,915	56,077,254
Board-designated endowment-type funds	<u>2,667,889</u>	<u>—</u>	<u>—</u>	<u>2,667,889</u>
Endowment net assets, June 30, 2011	<u>\$ 2,667,889</u>	<u>10,888,339</u>	<u>45,188,915</u>	<u>58,745,143</u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment-type funds	\$ (1,537,988)	4,842,567	42,731,875	46,036,454
Board-designated endowment-type funds	<u>3,113,187</u>	<u>—</u>	<u>—</u>	<u>3,113,187</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>

As a result of unfavorable market fluctuations, the fair value of certain donor-restricted endowments was less than the historical cost (original gift/book value) of such funds (“underwater”) by \$1,537,988 at June 30, 2010, and this deficiency has been recorded in unrestricted net assets. At June 30, 2011, there were no endowments that were underwater.

(12) Related Party Transactions

The following contributed services, commodities, utilities, equipment, and facilities were received from the University during 2011 and 2010 and are reflected as unrestricted contributions and unrestricted expenses in the consolidated statements of activities.

	<u>2011</u>	<u>2010</u>
Wages and benefits	\$ 1,386,067	1,538,076
Contractual services	18,141	28,624
Commodities	24,308	439
Utilities	23,301	36,997
Facilities	<u>101,231</u>	<u>98,480</u>
Total	<u>\$ 1,553,048</u>	<u>1,702,616</u>

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(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, 2011 and 2010 is presented below.

	<u>2011</u>	<u>2010</u>
Total minimum lease payments to be received	\$ 1,478,556	1,675,697
Less unearned income	<u>(230,370)</u>	<u>(290,637)</u>
Net investment in direct financing lease	\$ <u>1,248,186</u>	<u>1,385,060</u>

Future minimum lease payments to be received are as follows:

Year ending June 30:	
2012	\$ 197,141
2013	197,141
2014	197,141
2015	197,141
2016	197,141
Thereafter	<u>492,851</u>
Total	\$ <u>1,478,556</u>