



Financial Statements

MISSISSIPPI STATE UNIVERSITY FOUNDATION ANNUAL REPORT 2008-2009

*The Board of Directors
Mississippi State University Foundation, Inc.:*

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

As discussed in notes 1(1) and 8, the Foundation adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of July 1, 2008, for fair value measurements of all financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

KPMG LLP
DECEMBER 14, 2009

<i>Assets</i>	<u>2009</u>	<u>2008</u>
Cash	\$ 2,370,160	3,243,092
Restricted cash	2,032,354	—
Accrued interest, other receivables and prepaid assets	568,524	657,654
Receivable from Mississippi State University	2,982	13,750
Receivable from MSU Alumni Foundation	12,933	19,110
Receivable from MSU Alumni Association	131,424	120,953
Notes receivable (note 4)	366,117	443,482
Pledges receivable, net (note 3)	19,562,300	17,030,437
Investments (note 2)	204,400,418	239,074,917
Present value of amounts due from externally managed trusts	26,986,042	25,936,835
Unamortized bond issuance costs	—	44,400
Land, buildings and equipment (note 5)	<u>12,540,166</u>	<u>13,306,918</u>
Total assets	<u>\$ 268,973,420</u>	<u>299,891,548</u>
 <i>Liabilities and Net Assets</i>		
<i>Liabilities:</i>		
Accounts payable and accrued liabilities	\$ 2,484,360	2,771,447
Agency payable	2,032,354	—
Obligation under capital leases (note 9)	3,175,353	3,510,099
Liabilities under split interest agreements	3,784,736	5,251,595
Long-term debt (note 6)	<u>267,941</u>	<u>4,192,590</u>
Total liabilities	<u>11,744,744</u>	<u>15,725,731</u>
 <i>Net assets (deficit):</i>		
Unrestricted	(3,839,125)	21,464,897
Temporarily restricted (note 7)	32,564,787	45,474,916
Permanently restricted (note 7)	<u>228,503,014</u>	<u>217,226,004</u>
Total net assets	<u>257,228,676</u>	<u>284,165,817</u>
 Commitments (notes 2 and 9)		
Total liabilities and net assets	<u>\$ 268,973,420</u>	<u>299,891,548</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES | YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<i>Revenues and support:</i>				
Contributions	\$ 4,675,367	12,387,527	11,073,098	28,135,992
Net investment loss (note 2)	(24,242,720)	(7,203,227)	(332,523)	(31,778,470)
Change in value of split interest agreements	—	(164,376)	392,000	227,624
Other	2,562,793	—	—	2,562,793
Change in restrictions by donor	455,046	(599,481)	144,435	—
Net assets released from restrictions	<u>17,330,572</u>	<u>(17,330,572)</u>	<u>—</u>	<u>—</u>
Total revenues and support	<u>781,058</u>	<u>(12,910,129)</u>	<u>11,277,010</u>	<u>(852,061)</u>
<i>Expenditures:</i>				
Program services:				
Contributions and support for Mississippi State University	17,875,592	—	—	17,875,592
Contributions and support for Bulldog Club	2,387,142	—	—	2,387,142
Contributions and support for Bulldog Foundation	21,375	—	—	21,375
Contributions and support for MSU Alumni Association	<u>566,877</u>	<u>—</u>	<u>—</u>	<u>566,877</u>
Total program services	<u>20,850,986</u>	<u>—</u>	<u>—</u>	<u>20,850,986</u>
Supporting services:				
General and administrative	2,453,821	—	—	2,453,821
Fund raising	<u>2,780,273</u>	<u>—</u>	<u>—</u>	<u>2,780,273</u>
Total supporting services	<u>5,234,094</u>	<u>—</u>	<u>—</u>	<u>5,234,094</u>
Total expenditures	<u>26,085,080</u>	<u>—</u>	<u>—</u>	<u>26,085,080</u>
(Decrease) increase in net assets	(25,304,022)	(12,910,129)	11,277,010	(26,937,141)
Net assets at beginning of year	<u>21,464,897</u>	<u>45,474,916</u>	<u>217,226,004</u>	<u>284,165,817</u>
Net assets (deficit) at end of year	<u>\$ (3,839,125)</u>	<u>32,564,787</u>	<u>228,503,014</u>	<u>257,228,676</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES | YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<i>Revenues and support:</i>				
Contributions	\$ 4,825,052	4,453,413	10,770,210	20,048,675
Net investment (loss) income (note 2)	(84,851)	(6,711,718)	209,912	(6,586,657)
Change in value of split interest agreements	—	98,598	3,367,490	3,466,088
Other	2,307,506	(736,608)	1,010,372	2,581,270
Change in restrictions by donor	41,617	1,125,550	(1,167,167)	—
Net assets released from restrictions	<u>21,128,054</u>	<u>(21,128,054)</u>	<u>—</u>	<u>—</u>
Total revenues and support	<u>28,217,378</u>	<u>(22,898,819)</u>	<u>14,190,817</u>	<u>19,509,376</u>
<i>Expenditures:</i>				
Program services:				
Contributions and support for Mississippi State University	23,995,804	—	—	23,995,804
Contributions and support for Bulldog Club	630,066	—	—	630,066
Contributions and support for Bulldog Foundation	332,500	—	—	332,500
Contributions and support for MSU Alumni Association	<u>580,485</u>	<u>—</u>	<u>—</u>	<u>580,485</u>
Total program services	<u>25,538,855</u>	<u>—</u>	<u>—</u>	<u>25,538,855</u>
Supporting services:				
General and administrative	3,007,196	—	—	3,007,196
Fund raising	<u>2,904,953</u>	<u>—</u>	<u>—</u>	<u>2,904,953</u>
Total supporting services	<u>5,912,149</u>	<u>—</u>	<u>—</u>	<u>5,912,149</u>
Total expenditures	<u>31,451,004</u>	<u>—</u>	<u>—</u>	<u>31,451,004</u>
(Decrease) increase in net assets	(3,233,626)	(22,898,819)	14,190,817	(11,941,628)
Net assets at beginning of year	<u>24,698,523</u>	<u>68,373,735</u>	<u>203,035,187</u>	<u>296,107,445</u>
Net assets at end of year	<u>\$ 21,464,897</u>	<u>45,474,916</u>	<u>217,226,004</u>	<u>284,165,817</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS | YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (26,937,141)	(11,941,628)
Adjustments to reconcile decrease in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	800,654	1,242,233
Loss on early redemption of bonds	63,600	—
Realized and unrealized losses on investments, net	38,861,557	14,142,434
Change in value of internally managed split interest agreements	(499,457)	413,224
Fair value of donated assets	(1,584,128)	(5,335,727)
Change in accrued interest, other receivables and prepaid assets	89,130	309,441
Change in pledges receivable, net	(2,531,863)	5,960,229
Change in externally managed trusts	(1,049,207)	8,813,188
Change in accounts payable and accrued liabilities	(287,087)	(546,314)
Change in receivable from Mississippi State University	10,768	(13,750)
Change in receivable from MSU Alumni Foundation	6,177	(46)
Change in receivable from MSU Alumni Association	(10,471)	(88,886)
Permanently restricted investment dividends and interest	(4,219)	(13,769)
Permanently restricted contributions	<u>(11,128,623)</u>	<u>(12,853,706)</u>
Net cash provided by (used in) operating activities	<u>(4,200,310)</u>	<u>86,923</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(33,902)	(52,220)
Purchases of investments	(15,225,227)	(39,859,951)
Proceeds from sales and maturities of investments	12,131,248	29,622,637
Payments on notes receivable	<u>77,365</u>	<u>96,433</u>
Net cash used in investing activities	<u>(3,050,516)</u>	<u>(10,193,101)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(3,943,849)	(663,405)
Permanently restricted investment dividends and interest	4,219	13,769
Permanently restricted contributions	11,128,623	12,853,706
New liabilities under split interest agreements	132,809	514,816
Payments to split interest agreement beneficiaries	(609,162)	(734,537)
Principal payments on capital lease obligation	<u>(334,746)</u>	<u>(297,823)</u>
Net cash provided by financing activities	<u>6,377,894</u>	<u>11,686,526</u>
Net increase (decrease) in cash	(872,932)	1,580,348
Cash at beginning of year	<u>3,243,092</u>	<u>1,662,744</u>
Cash at end of year	<u>\$ 2,370,160</u>	<u>3,243,092</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 26,993	240,257
Capital lease obligation for equipment	—	3,606,672

See accompanying notes to financial statements.

(I) Significant Accounting Policies**(a) Organization**

Mississippi State University Foundation, Inc. (the Foundation) is a not-for-profit entity established to solicit and manage funds for the benefit of Mississippi State University (the University). The Foundation also manages funds for affiliates of the University, including MSU Alumni Association, MSU Alumni Foundation, MSU Bulldog Club, Inc. and MSU Bulldog Foundation.

(b) Basis of Accounting

These 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 or 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.

Unrestricted net assets – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations. Unrestricted net assets include contributions designated to a particular college or unit for which the use or purpose is unrestricted.

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

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. Contributed goods and services are recorded as revenues and expenses in the statement of activities at estimated fair value.

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

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

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(c) Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

An estimate that is particularly susceptible to significant change in the near term relates to the allowance for uncollectible pledges.

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 financial statements.

(d) Restricted Cash

Funds held for an unaffiliated organization that retains control over the expenditures of such funds are classified as restricted cash in the statement of financial position with a corresponding amount in agency payable.

(e) Land, Buildings and Equipment

Land, buildings and equipment are stated at cost, if purchased, or at fair value on the date of gift, if donated. Depreciation of buildings and equipment, including assets acquired under capital leases, is provided on the straight-line method over the shorter of the estimated useful life of the assets or the term of the lease. The estimated useful lives for buildings is 30-40 years and furniture, fixtures, and equipment is 5-10 years.

The Foundation assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset.

(f) Investments

The Foundation's investments primarily consist of publicly traded fixed income and equity securities, other investments, and cash held for reinvestment. Other investments include real estate investments, private equity funds and hedge funds through fund-of-funds structures generally organized as limited partnerships or limited liability companies. The fair value of publicly traded fixed income and equity securities investments are based on quoted market prices. Since partnership and member interests do not have readily ascertainable market values and may be subject to withdrawal restrictions, the Foundation values these investments at net asset value, in accordance with valuations provided by the general partner or fund manager of the underlying partnership or company. The Foundation's management may, in addition, consider other factors in assessing the fair value of these investments. Real estate is valued at estimated fair value. Cash held for reinvestment consists primarily of liquid short-term instruments held by the investment pool.

The Foundation believes that the carrying amount of its other investments is a reasonable estimate of fair value as of June 30, 2009 and 2008. Because other investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed.

The liquidity crisis that originally was linked principally to the sub-prime lending markets has spread to

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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 promises to give are recorded at their estimated realizable value on a discounted basis.

(h) Split Interest Agreements

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of gift annuities, charitable lead trusts, charitable remainder trusts or perpetual 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 appropriate discount rates (at June 30, 2009 rates ranged from approximately 3% to 8%). For certain split interest agreements where the measurement objective is fair value, the discount rate is adjusted to a current market rate at each reporting date. Funds subject to split interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

Externally managed trusts consist of irrevocable charitable lead trusts, charitable remainder trusts and perpetual trusts whereby the Foundation is the beneficiary, not the trustee. The Foundation records these trusts, after discovery of their existence, at the present value of the estimated future cash receipts from the assets of the trust.

Contribution revenue attributable to split interest agreements for the fiscal years ended June 30, 2009 and 2008 was \$1,704,261 and \$2,350,417, respectively.

(i) Bond Issuance Costs and Bond Discounts

Bond issuance costs and bond discounts are amortized over the term of the related bond issue using the straight-line method, which does not significantly differ from the effective interest method.

(j) Income Taxes

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

On July 1, 2008, the Foundation adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income tax positions recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of those positions are determined. There was no impact on the Foundation's financial statements as a result of the adoption of FIN 48.

(k) Liquidity

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

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(l) Recent Accounting Pronouncements

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements. In conjunction with the adoption of SFAS No. 157, the Foundation elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. This guidance amends SFAS No. 157 and permits, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to SFAS No. 157. The Foundation's adoption of SFAS No. 157 did not have a significant impact on the Foundation's determination of fair value in the financial statements but did result in expanded footnote disclosures in notes 2 and 8 to the financial statements.

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

In August 2008, the FASB issued Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA and expands disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. As of June 30, 2009, the state of Mississippi had not yet adopted UPMIFA. The Foundation adopted the disclosure provisions of FSP 117-1 during the year ended June 30, 2009.

(m) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued SFAS No. 165, *Subsequent Events*, the Foundation evaluated subsequent events after the balance sheet date of June 30, 2009 through December 14, 2009, which was the date the financial statements were available to be issued.

(2) Investments

The Foundation, the University, the MSU Alumni Foundation and the MSU Bulldog Club, Inc. are participants in a joint venture whereby certain assets are pooled for investment purposes. The Foundation is the investment pool's general partner, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the pool are allocated to each participant based on their share of ownership

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of the pool. At June 30, 2009 and 2008, approximately 83% and 82%, respectively, of the Foundation's investments are included in the pool.

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

	<u>2009</u>	<u>2008</u>
U.S. Government securities	\$ 3,071,969	3,806,857
Corporate bonds	36,028,716	33,727,322
Equity securities	94,487,509	124,937,100
Partnership and member interests	57,425,166	65,576,096
Short-term investments	5,046,481	2,719,419
Real estate	7,176,345	7,180,888
Other	<u>1,164,232</u>	<u>1,127,235</u>
	<u>\$ 204,400,418</u>	<u>239,074,917</u>

Included in the above table are approximately \$98,198,000 and \$123,487,000 at June 30, 2009 and June 30, 2008, respectively, of investments whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based upon information provided by the fund managers or general partners.

Within each asset class, the Foundation achieves diversification through allocations to several investment strategies and market capitalizations.

At June 30, 2009, the Foundation's remaining outstanding commitments to private equity and venture capital interests totaled \$1,686,975. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

Fiscal year:	<u>Projected capital calls</u>
2010	\$ 675,000
2011	675,000
2012	336,975
2013	—
2014	—
Thereafter	<u>—</u>
Total	<u>\$ 1,686,975</u>

Private equity and venture capital interests have ten year terms, with extensions of one to four years. As of June 30, 2009, the average remaining life of the private equity and venture capital interests is approximately 5 years.

At June 30, 2009 and 2008, the Foundation had hedge fund investments of approximately \$43,751,000 and \$50,089,000, respectively. Some of the hedge fund investments with redemption restrictions allow early redemption

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for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually with the majority requiring 15 to 180 days notice after the initial lock up period. At June 30, 2009, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.

The Foundation has entered into various split interest agreements, including charitable lead annuity trusts, charitable remainder unitrusts, and charitable gift annuities, whereby the Foundation serves as trustee. The assets held under these split interest agreements are included in investments at June 30, 2009 and 2008 with an approximate fair value of \$5,468,000 and \$7,564,000, respectively.

The following schedule summarizes net investment loss in the statements of activities for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Dividends and interest (net of expenses of \$815,363 and \$855,174, respectively)	\$ 7,083,087	7,555,777
Net realized and unrealized losses	<u>(38,861,557)</u>	<u>(14,142,434)</u>
	<u>\$ (31,778,470)</u>	<u>(6,586,657)</u>

(3) Pledges Receivable

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

	<u>2009</u>	<u>2008</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 7,893,435	6,615,233
One year to five years	10,108,024	8,437,035
Over five years	<u>4,262,201</u>	<u>5,667,000</u>
	22,263,660	20,719,268
Less unamortized discount (rates ranging from 1% to 5% and 3% to 5% in 2009 and 2008, respectively)	<u>(2,024,659)</u>	<u>(2,986,990)</u>
	20,239,001	17,732,278
Less allowance for uncollectible pledges	<u>(676,701)</u>	<u>(701,841)</u>
	<u>\$ 19,562,300</u>	<u>17,030,437</u>

(4) Notes Receivable

At June 30, 2009 and 2008, the Foundation had two notes receivable totaling \$366,117 and \$443,482, respectively, both with a related party. The notes receivable require semi-annual and monthly payments of \$33,238 and \$3,229, respectively, have interest rates of 6% and maturity dates of August 2014 and December 2010, respectively.

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(5) Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land and buildings	\$ 11,987,491	11,987,491
Furniture, fixtures, and equipment	<u>7,446,302</u>	<u>7,462,510</u>
	19,433,793	19,450,001
Less accumulated depreciation	<u>(6,893,627)</u>	<u>(6,143,083)</u>
	<u>\$ 12,540,166</u>	<u>13,306,918</u>

(6) Long-Term Debt

Long-term debt is summarized as follows at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Mississippi Business Finance Corporation, Variable Rate Revenue Bonds, Series 2002.	\$ —	2,400,000
Non-interest bearing unsecured note payable to a private foundation. Principal is payable as repayments are received from students.	267,941	311,790
Non-interest bearing unsecured note payable to private foundation, paid in full July 2008.	<u>—</u>	<u>1,500,000</u>
	267,941	4,211,790
Less unamortized bond discount	<u>—</u>	<u>(19,200)</u>
	<u>\$ 267,941</u>	<u>4,192,590</u>

In April 2002, the Foundation issued \$6,000,000 in Series 2002 Variable Rate Revenue Bonds through the Mississippi Business Finance Corporation. The Foundation redeemed the bonds in November 2008.

Interest expense incurred during the years ended June 30, 2009 and 2008 was \$25,098 and \$95,430, respectively.

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(7) Net Assets

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

	2009		2008	
	Net assets		Net assets	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
General college support	\$ 12,914,740	74,445,123	18,037,090	69,091,649
Student financial aid	12,073,790	87,879,020	16,041,084	84,246,189
Research	1,010,879	16,297,408	1,674,467	16,211,370
Faculty and staff support	1,274,278	39,780,153	4,235,079	38,073,356
Facilities	4,808,804	7,915,287	4,537,033	7,810,145
Other	482,296	2,186,023	950,163	1,793,295
Total	\$ 32,564,787	228,503,014	45,474,916	217,226,004

(8) Fair Value Measurements

(a) Fair Value of Financial Instruments

The carrying amounts reported in the statements of financial position for cash, other receivables, and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of pledges receivable approximates fair value as they are presented on a discounted basis. The fair value of the notes receivable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2009 and 2008. The fair value of the various debt instruments has been estimated using interest rates currently offered to the Foundation for borrowings having similar character, collateral and duration. The fair value of such debt instruments approximates the carrying amounts at June 30, 2009 and 2008. Investments and amounts due from externally managed trusts are reflected in the accompanying financial statements at fair value. The fair value of annuity obligations approximates carrying value at June 30, 2009 due to discount rates and actuarial assumptions used in the calculation of the Foundation's liability.

(b) Fair Value Hierarchy

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

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

The following is a summary of the levels within the fair value hierarchy as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments	\$ 85,846,807	53,952,100	64,601,511	204,400,418
Present value of amounts due from externally managed trusts	—	<u>26,986,042</u>	—	<u>26,986,042</u>
	<u>\$ 85,846,807</u>	<u>80,938,142</u>	<u>64,601,511</u>	<u>231,386,460</u>

Changes to investments classified as Level 3 as of June 30, 2009 follows:

<u>Balance as of July 1, 2008</u>	<u>Purchases/sales</u>	<u>Net transfers</u>	<u>Gains (losses)</u>	<u>Balance as of June 30, 2009</u>
\$ 72,756,984	(1,210,168)	—	(6,945,305)	64,601,511

Gains (losses) presented in the table above relate to assets held by the Foundation at June 30, 2009.

Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable, are classified as Level 2 or Level 3. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2, otherwise the investment is classified in Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(9) Leases

The Foundation has entered into a lease agreement that expires August 2014 for the use of an airplane, with a guaranteed residual of \$1,912,550, and other equipment under a capital lease agreement that expires in October 2013. Future minimum lease payments under the capital lease obligations are as follows:

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Fiscal year:		
2010	\$	458,938
2011		458,938
2012		458,938
2013		458,938
2014		458,938
Thereafter		<u>1,256,652</u>
Total future minimum lease payments		3,551,342
Amount representing interest		<u>(375,989)</u>
Present value of net minimum lease payments	\$	<u><u>3,175,353</u></u>

The equipment recorded under the capital lease agreement is included in property and equipment at original cost of \$4,538,794 with accumulated depreciation of \$1,592,438 and \$1,252,060 as of June 30, 2009 and 2008, respectively.

(10) Endowment

The Foundation’s endowment consists of over 950 individual donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors of the Foundation (the Board) to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretations of Relevant Law

The Board has interpreted the State of Mississippi Code of 1972 §79-11-601 through §79-11-617 cited as the “Uniform Management of Institutional Funds Act” (UMIFA) as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with UMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long term purchasing power of the endowment fund. The Board considered the following factors in making its determination:

- 1) The purpose of the Foundation
- 2) The intent of the donor of the endowment fund
- 3) The terms of the applicable instrument
- 4) The long-term and short-term needs of the Foundation and the University in carrying out their purposes
- 5) General economic conditions

CONTINUED

- 6) The possible effect of inflation or deflation
- 7) The other resources of the Foundation and the University
- 8) Perpetuation of the endowment

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UMIFA. However, by Board policy, any appreciation is considered an asset of each individual endowment fund and is not appropriated for general Foundation or University use.

(b) *Spending Policy*

The Foundation's spending policy is designed to provide for positive growth in the market value of its endowment, net of distributions, over an extended period of time. In establishing this policy, the Board considered the long-term expected return of the endowment investment pool and the goal of maintaining the purchasing power of the endowment asset. Over the long term, the current spending policy is designed to return a net positive gain in market value (growth) after spendable transfers.

The annual rate for spendable transfers, distributed semi-annually, is 4% of the investment pool's average unit value over the most recent 24-month period. In addition, each endowed fund is assessed an annual 1% administrative fee. This fee is a portion of the funding mechanism for the development and alumni programs of the University.

(c) *Investment Policy*

The Foundation's investment objectives are to provide a nominal annual return of 9% or more in order to preserve, or increase, the purchasing power of endowment capital, while generating an income stream to support activities of the funds held for the colleges and units of the University. This policy is designed to tolerate volatility in short and intermediate-term performance. The endowment assets are invested as a part of the investment pool, as discussed in note 2.

To satisfy its long-term rate of return objectives, the pool embraces a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation, through the Mississippi State Investment Pool, targets a diversified asset allocation that includes global equities, fixed income, natural resources, and hedge strategies to achieve long-term objectives within prudent risk constraints.

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Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,080,786)	6,690,128	228,503,014	213,112,356
Board-designated endowment funds	<u>9,190,015</u>	<u>—</u>	<u>—</u>	<u>9,190,015</u>
Total funds	<u>\$ (12,890,771)</u>	<u>6,690,128</u>	<u>228,503,014</u>	<u>222,302,371</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,156,069	24,306,972	217,226,004	250,689,045
Investment return:				
Investment income	360,823	4,700,675	4,219	5,065,717
Net depreciation (realized and unrealized)	<u>(21,227,090)</u>	<u>(13,963,955)</u>	<u>(336,742)</u>	<u>(35,527,787)</u>
Total investment return	(20,866,267)	(9,263,280)	(332,523)	(30,462,070)
Contributions	—	—	11,073,098	11,073,098
Appropriation of endowment assets for expenditure	(2,290,573)	(8,353,564)	—	(10,644,137)
Other changes:				
Transfers to create board-designed endowment funds	1,110,000	—	—	1,110,000
Change in restrictions by donor	—	—	144,435	144,435
Change in value of split interest agreements	<u>—</u>	<u>—</u>	<u>392,000</u>	<u>392,000</u>
Endowment net assets, end of year	<u>\$ (12,890,771)</u>	<u>6,690,128</u>	<u>228,503,014</u>	<u>222,302,371</u>

CONTINUED

Endowment net asset composition by type of fund as of June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,015,890)	24,306,972	217,226,004	240,517,086
Board-designated endowment funds	<u>10,171,959</u>	<u>—</u>	<u>—</u>	<u>10,171,959</u>
Total funds	<u>\$ 9,156,069</u>	<u>24,306,972</u>	<u>217,226,004</u>	<u>250,689,045</u>

Changes in endowment net assets for the fiscal year ended June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,339,624	40,162,021	203,035,187	254,536,832
Investment return:				
Investment income	445,967	4,923,345	13,769	5,383,081
Net appreciation (depreciation) (realized and unrealized)	<u>(1,908,589)</u>	<u>(12,254,970)</u>	<u>196,143</u>	<u>(13,967,416)</u>
Total investment return	(1,462,622)	(7,331,625)	209,912	(8,584,335)
Contributions	—	—	10,770,210	10,770,210
Appropriation of endowment assets for expenditure	(720,933)	(8,523,424)	—	(9,244,357)
Other changes:				
Change in restrictions by donor	—	—	(1,167,167)	(1,167,167)
Change in value of split interest agreements	—	—	3,367,490	3,367,490
Other	<u>—</u>	<u>—</u>	<u>1,010,372</u>	<u>1,010,372</u>
Endowment net assets, end of year	<u>\$ 9,156,069</u>	<u>24,306,972</u>	<u>217,226,004</u>	<u>250,689,045</u>

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(d) Funds with deficiencies

As a result of market declines for certain recently established endowments, the fair value of certain donor-restricted endowments was less than the historical cost value (original gift/book value) of such funds (“underwater”) by \$22,080,786 and \$1,015,890 at June 30, 2009 and 2008, respectively. These losses have been recorded as reductions in unrestricted net assets in accordance with accounting principles generally accepted in the United States of America. Future gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Working Toward New Goals

The faculty and administration of Mississippi State University are working to advance our university to its rightful place among the outstanding public universities in the nation. Fulfilling this goal will require financial support from alumni and friends, both in the form of endowments and as an on-going stream of annual contributions to support these efforts.

In recent years, the generosity of alumni and friends has truly been remarkable. In this economy, we are particularly pleased that the third highest giving year in school history was achieved during FY 2008-09. Private gifts and pledges of future support tallied \$61.5 million during the fiscal year, up 19 percent from FY 2007-08.

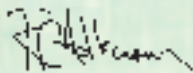
Donors who gave with loyalty, pride and passion inspired others. Supporters of MSU possess a common desire to enhance lives through education and research. To all of our donors, we offer our sincere gratitude and appreciation.

The Foundation's recent accomplishments in support of the university's mission to provide quality teaching, research and service have been exceptional. To that end, we are undertaking a new fundraising effort with confidence and enthusiasm.

StatePride: An Initiative for Student and Faculty Support is already making a positive impact on the university. The initiative began in January 2009 and will continue through December 2012, as it seeks funds for need-based scholarships for deserving students and academic scholarships to compete for the best and brightest students. *StatePride* also will create opportunities for top performing faculty members.

We hope you will explore giving through *StatePride*. Your continued loyalty, pride and passion will move Mississippi State forward.

Sincerely,



Richard C. Adkerson, '69, '70
President, MSU Foundation Board of Directors



John P. Rush, '94, '02
MSU Vice President for Development and Alumni and
Chief Executive Officer, MSU Foundation