



MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2011

(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
Mississippi State University Foundation, Inc.:

We have audited the accompanying consolidated statement of financial position of Mississippi State University Foundation, Inc. (the Foundation) as of June 30, 2011, and the related consolidated statements of activities, changes in net assets and cash flows for the year 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 upon our audit.

We conducted our audit 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 audit provides 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 Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(m) to the consolidated financial statements, the Foundation adopted the provisions of Accounting Standards Codification Subtopic 810-10, *Noncontrolling Interests in Consolidated Financial Statements* (previously Statement of Financial Accounting Standards No. 160), as of July 1, 2010.

KPMG LLP

November 11, 2011

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Financial Position

June 30, 2011

Assets

Cash	\$ 2,068,473
Restricted cash	3,536,619
Accrued interest, other receivables and prepaid assets	813,513
Receivable from Mississippi State University	3,998
Receivable from MSU Alumni Foundation	87,652
Receivable from MSU Alumni Association	137,918
Notes receivable (note 4)	207,171
Pledges receivable, net (note 3)	18,468,672
Investments (note 2)	324,088,172
Present value of amounts due from externally managed trusts	34,343,134
Land, buildings, and equipment (note 5)	11,138,241
Total assets	<u>\$ 394,893,563</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 1,869,692
Agency payable	3,536,619
Obligation under capital leases (note 9)	2,454,242
Liabilities under split interest agreements	3,768,700
Note payable (note 6)	202,235
Total liabilities	<u>11,831,488</u>

Net assets:

Unrestricted:

Net assets controlled by Foundation	24,827,789
Net assets related to noncontrolling interests	45,200,866
Total unrestricted net assets	70,028,655

Temporarily restricted (note 7)	57,647,303
Permanently restricted (note 7)	255,386,117
Total net assets	<u>383,062,075</u>

Commitments (notes 8 and 9)

Total liabilities and net assets	<u>\$ 394,893,563</u>
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See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contributions	\$ 5,100,382	11,320,438	10,826,704	27,247,524
Net investment income (note 2)	22,200,476	29,354,481	519,038	52,073,995
Change in value of split interest agreements	—	97,710	5,290,557	5,388,267
Other	3,629,432	123,514	—	3,752,946
Change in restrictions by donor	—	1,690,000	(1,690,000)	—
Net assets released from restrictions	<u>18,508,414</u>	<u>(18,508,414)</u>	<u>—</u>	<u>—</u>
Total revenues and support	<u>49,438,704</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>88,462,732</u>
Expenditures:				
Program services:				
Contributions and support for Mississippi State University	21,621,502	—	—	21,621,502
Contributions and support for Bulldog Club	87,625	—	—	87,625
Contributions and support for Bulldog Foundation	31,845	—	—	31,845
Contributions and support for MSU Alumni Association	<u>550,573</u>	<u>—</u>	<u>—</u>	<u>550,573</u>
Total program services	<u>22,291,545</u>	<u>—</u>	<u>—</u>	<u>22,291,545</u>
Supporting services:				
General and administrative	2,725,692	—	—	2,725,692
Fund raising	<u>3,030,248</u>	<u>—</u>	<u>—</u>	<u>3,030,248</u>
Total supporting services	<u>5,755,940</u>	<u>—</u>	<u>—</u>	<u>5,755,940</u>
Total expenditures	<u>28,047,485</u>	<u>—</u>	<u>—</u>	<u>28,047,485</u>
Change in net assets	21,391,219	24,077,729	14,946,299	60,415,247
Less change in net assets related to noncontrolling interests	<u>(7,703,119)</u>	<u>—</u>	<u>—</u>	<u>(7,703,119)</u>
Change in net assets controlled by Foundation	<u>\$ 13,688,100</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>52,712,128</u>

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Changes in Net Assets

Year ended June 30, 2011

	Unrestricted net assets controlled by Foundation	Unrestricted net assets related to noncontrolling interests	Total unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Net assets as of June 30, 2010 (See note 1(m))	\$ 11,139,689	36,944,852	48,084,541	33,569,574	240,439,818	322,093,933
Change in net assets from Statement of Activities	13,688,100	7,703,119	21,391,219	24,077,729	14,946,299	60,415,247
Payments to noncontrolling interests	—	(1,403,705)	(1,403,705)	—	—	(1,403,705)
Proceeds from noncontrolling interests	—	1,956,600	1,956,600	—	—	1,956,600
Change in total net assets	<u>13,688,100</u>	<u>8,256,014</u>	<u>21,944,114</u>	<u>24,077,729</u>	<u>14,946,299</u>	<u>60,968,142</u>
Net assets as of June 30, 2011	\$ <u>24,827,789</u>	<u>45,200,866</u>	<u>70,028,655</u>	<u>57,647,303</u>	<u>255,386,117</u>	<u>383,062,075</u>

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ 60,415,247
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	792,457
Realized and unrealized gains on investments, net	(44,858,253)
Change in value of internally managed split interest agreements	253,720
Fair value of donated assets	(1,409,800)
Change in accrued interest, other receivables and prepaid assets	(384,298)
Change in pledges receivable, net	(1,115,454)
Change in externally managed trusts	(5,543,202)
Change in accounts payable and accrued liabilities	131,367
Change in receivable from Mississippi State University	3,385
Change in receivable from MSU Alumni Foundation	(76,599)
Change in receivable from MSU Alumni Association	(26,257)
Permanently restricted contributions	<u>(11,684,459)</u>
Net cash used in operating activities	<u>(3,502,146)</u>
Cash flows from investing activities:	
Purchases of land, buildings and equipment	(128,476)
Purchases of investments	(126,988,418)
Proceeds from sales and maturities of investments	116,691,935
Payments on notes receivable	<u>70,800</u>
Net cash used in investing activities	<u>(10,354,159)</u>
Cash flows from financing activities:	
Principal payments on note payable	(26,578)
Permanently restricted contributions	11,684,459
New liabilities under split interest agreements	140,004
Payments to split interest agreement beneficiaries	(567,348)
Principal payments on capital lease obligation	(367,728)
Payments to noncontrolling interests	(1,403,705)
Proceeds from noncontrolling interests	<u>1,956,600</u>
Net cash provided by financing activities	<u>11,415,704</u>
Net decrease in cash	(2,440,601)
Cash at beginning of year	<u>4,509,074</u>
Cash at end of year	<u>\$ 2,068,473</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ 87,146

See accompanying notes to consolidated financial statements.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(1) 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

The consolidated financial statements include the Foundation and the Mississippi State Investment Pool in which the Foundation has a significant financial interest and control. These 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 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 that 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 consolidated statement of activities at estimated fair value.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

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; and
- as increases or decreases in unrestricted net assets in all other cases.

(c) Use of Estimates

The preparation of the 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 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 consolidated 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 consolidated 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 are 30-40 years and furniture, fixtures, and equipment are 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.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(f) *Fair Value Measurements*

The carrying amounts reported in the consolidated statement 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 and note payable has been estimated using current interest rates and approximate the carrying amounts at June 30, 2011. Investments and amounts due from externally managed trusts are reflected in the accompanying consolidated financial statements at fair value. The fair value of annuity obligations approximates carrying value at June 30, 2011 due to discount rates and actuarial assumptions used in the calculation of the Foundation's liability.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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:

- 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.

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 consolidated 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.

(g) *Investments*

Overall Investment Objective

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund donor-designated directives and maintain each fund's inflation-adjusted impact. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

authorized by the Foundation's Investment Committee, which oversees its investment program in accordance with an established investment policy.

Mississippi State Investment Pool

The Foundation, the University, the MSU Alumni Foundation, and the MSU Bulldog Club, Inc. are participants in a joint venture, the Mississippi State Investment Pool (MSIP), whereby certain assets are pooled for investment purposes. The Foundation is the investment pool's managing member, manages the assets of the pool, and maintains separate accounts for each participant. Investment income, gains and losses, and expenses of the MSIP are allocated to each participant based on their share of ownership of the MSIP. Due to the Foundation's significant financial interest in and control of the MSIP, the Foundation has consolidated the MSIP reflecting the noncontrolling interests of the other three participants in the consolidated financial statements. As of June 30, 2011, the Foundation's consolidated financial statements include \$45,200,866 for their noncontrolling share within investments and unrestricted net assets related to noncontrolling interests. The Foundation recorded \$7,703,119 of gains associated with these investments for fiscal 2011, which is reported in net investment income.

During 2011, management identified that the MSIP should be consolidated with the Foundation. This error arose in periods prior to June 30, 2010. As a result, management determined that an adjustment to increase investments and minority interest liability in the amount of \$36,944,852 as previously reported at June 30, 2010 was necessary to correct for this immaterial error. There was no change to the total net assets on the statement of financial position as of June 30, 2010 or the total change in net assets for the year ended June 30, 2010. Certain related footnotes have also been revised as a result of the correction. The Foundation implemented the provisions of FASB ASC Topic 810-10, *Noncontrolling Interests in Consolidated Financial Statements* (see note 1(m)) which reclassified the minority interest liability to unrestricted net assets related to noncontrolling interests as of June 30, 2010.

Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, the Foundation may also hold shares or units in alternative investment vehicles involving hedged, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset strategies include natural resources and properties held for investment. Natural resources funds generally hold interests in timber management organizations and master limited partnerships. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

of certain investments held. Moreover, the fair values of the Foundation's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets. Cash held for reinvestment consists of liquid short-term investments held by the investment pool.

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with the SEC are based on share prices reported by the funds as of the last business day of the fiscal year. Fixed income securities are based on quoted market prices or other observable inputs such as quoted prices for similar assets or inputs corroborated by observable market data. The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) 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 NAV. As of June 30, 2011, the Foundation had no plans or intentions to sell investments at amounts different from NAV. Properties held for investment are reported at estimated fair value based on periodic appraisals conducted by third-party appraisers.

(h) Pledges

All unconditional promises to give are recorded at their estimated realizable value on a discounted basis. Allowance is made for uncollectible pledges based upon management's judgment and analysis of specific accounts, past collection experience and other relevant factors.

(i) 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, 2011 rates ranged from approximately 1% 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 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 year ended June 30, 2011 was \$132,724.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(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. Accordingly, no provision for income taxes has been made. As of June 30, 2011, there were no material uncertain tax positions.

(k) *Liquidity*

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

(l) *Subsequent Events*

FASB ASC 855, *Subsequent Events*, introduces the concept of financial statements being “available to be issued,” and requires disclosure of the date through which the entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855 does not result in significant changes to subsequent events that are reported either through recognition or disclosure in the financial statements. The Foundation has evaluated subsequent events through November 11, 2011, the date the consolidated financial statements were available to be issued.

(m) *Recent Accounting Pronouncements*

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 the 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 introduced UPMIFA, but the bill has not been enacted. The Foundation has not evaluated the impact of the enactment. The Foundation does apply the disclosure provision of FASB ASC 958.

During fiscal 2011, the Foundation implemented the provisions of FASB ASC Topic 810-10, *Noncontrolling Interests in Consolidated Financial Statements*, which requires noncontrolling interests to be reclassified from liabilities to unrestricted net assets on the consolidated statement of financial position. As a result, the Foundation reported \$36,944,852 as unrestricted net assets related to noncontrolling interests as of June 30, 2010.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(2) Investments

Investments are summarized as follows at June 30, 2011:

Fixed income securities	\$ 67,112,840
Equity securities	147,675,903
Hedged funds	64,247,790
Private equity and venture capital funds	4,309,013
Natural resources	16,521,777
Short-term investments	7,838,602
Properties held for investment	14,723,873
Cash surrender value of life insurance	1,658,374
	<u>\$ 324,088,172</u>

Total investments include a portion of an investment vehicle controlled by the Foundation (see note 1 (g)) that totaled \$45,200,866 as of June 30, 2011.

The Foundation has entered into various split interest agreements, including 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, 2011 with an approximate fair value of \$6,040,000.

The following schedule summarizes net investment income in the consolidated statement of activities for the year ended June 30, 2011:

Dividends and interest (net of expenses of \$819,488)	\$ 7,215,742
Net realized and unrealized gains	<u>44,858,253</u>
	<u>\$ 52,073,995</u>

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(3) Pledges Receivable

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

Unconditional promises expected to be collected in:	
Less than one year	\$ 8,087,092
One year to five years	10,736,142
Over five years	<u>2,074,617</u>
	20,897,851
Less unamortized discount (rates ranging from 1% to 5%)	<u>(1,457,066)</u>
	19,440,785
Less allowance for uncollectible pledges	<u>(972,113)</u>
	<u>\$ 18,468,672</u>

(4) Notes Receivable

At June 30, 2011, the Foundation had a note receivable from a related party totaling \$207,171. The note receivable requires semi-annual payments of \$33,238 and has an interest rate of 6% and a maturity date of August 2014.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2011:

Land and buildings	\$ 11,987,491
Furniture, fixtures, and equipment	<u>7,563,920</u>
	19,551,411
Less accumulated depreciation	<u>(8,413,170)</u>
	<u>\$ 11,138,241</u>

(6) Note Payable

At June 30, 2011, the Foundation had a non-interest bearing unsecured note payable to a private foundation in the amount of \$202,235. Principal is payable as repayments are received from students.

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(7) Net Assets

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

	Net assets	
	Temporarily restricted	Permanently restricted
Specified college programs	\$ 21,040,153	84,528,129
Student financial aid	22,006,189	102,304,733
Research	1,793,854	16,506,068
Faculty and staff support	5,793,346	42,752,094
Facilities	3,402,278	6,955,463
Other	3,611,483	2,339,630
Total	\$ <u>57,647,303</u>	<u>255,386,117</u>

MISSISSIPPI STATE UNIVERSITY FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011

(8) Fair Value Measurements

The following table summarizes the Foundation's assets by major category in the fair value hierarchy as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or Liquidation</u>	<u>Days' Notice</u>
Fixed income:						
Fixed income securities	\$ 269,892	10,859,387	—	11,129,279	Daily	1
Fixed income - mutual funds	55,983,561	—	—	55,983,561	Daily	1
Total fixed income	<u>56,253,453</u>	<u>10,859,387</u>	<u>—</u>	<u>67,112,840</u>		
Equities:						
Domestic large cap/mid cap	556,374	50,470,385	—	51,026,759	Daily	1 – 3
Domestic small cap	25,728,266	—	—	25,728,266	Daily	1
Non-U.S. equity	49,489,027	15,413,619	—	64,902,646	Daily/monthly	1 – 15
Real estate investment trusts	6,018,232	—	—	6,018,232	Daily	1
Total equities	<u>81,791,899</u>	<u>65,884,004</u>	<u>—</u>	<u>147,675,903</u>		
Hedged funds	—	—	64,247,790	64,247,790	(1)	(1)
Private equity and venture capital funds	—	—	4,309,013	4,309,013	Illiquid (2)	—
Natural resources	—	—	16,521,777	16,521,777	(3)	(3)
Short-term investments	7,838,602	—	—	7,838,602	Daily	1
Properties held for investment	—	—	14,723,873	14,723,873	Illiquid (4)	—
Cash surrender value of life insurance	—	1,658,374	—	1,658,374	(5)	(5)
Total investment	<u>\$ 145,883,954</u>	<u>78,401,765</u>	<u>99,802,453</u>	<u>324,088,172</u>		
Present value of amounts due from externally managed trusts	\$ —	34,343,134	—	34,343,134		

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- (1) Some of the hedge fund investments with redemption restrictions allow early redemption 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, which may be monthly, quarterly, or annually. At June 30, 2011, the Foundation had no alternative investment funds for which an otherwise redeemable investment was not redeemable.
- (2) These funds have ten-year terms or twelve-year terms, with extensions of one to four years, and are expected to liquidate prior to fund closing; future commitments to these funds approximate \$12,000,000 at June 30, 2011. Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the MSIP may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.
- (3) One partnership expected to terminate in May 2019, but is subject to two 2-year extensions. The master limited partnership allows for monthly redemptions with 30 days notice.
- (4) Bulldog Forest properties may be held in perpetuity or liquidated at the Foundation's discretion. Other properties are for immediate sale.
- (5) The Foundation currently has no plans to surrender these policies prior to maturity, but cash would be realized in a minimal amount of time if the insurance policy is cancelled.

The following table presents the Foundation's activities for the year ended June 30, 2011 for investments classified in Level 3:

	<u>Hedged funds</u>	<u>Private equity and venture capital funds</u>	<u>Natural resources</u>	<u>Properties held for investment</u>	<u>Total</u>
Beginning value as of July 1, 2010	\$ 57,964,685	3,653,771	14,582,843	10,287,397	86,488,696
Acquisitions	—	401,955	—	4,979,481	5,381,436
Dispositions	(310,682)	(712,200)	(143,733)	(470,190)	(1,636,805)
Net realized and unrealized gains (losses)	<u>6,593,787</u>	<u>965,487</u>	<u>2,082,667</u>	<u>(72,815)</u>	<u>9,569,126</u>
Fair value at June 30, 2011	\$ <u>64,247,790</u>	<u>4,309,013</u>	<u>16,521,777</u>	<u>14,723,873</u>	<u>99,802,453</u>

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(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:

Fiscal year:		
2012	\$	458,938
2013		458,938
2014		458,938
2015		<u>1,266,839</u>
Total future minimum lease payments		2,643,653
Amount representing interest		<u>(189,411)</u>
Present value of net minimum lease payments	\$	<u><u>2,454,242</u></u>

The equipment recorded under the capital lease agreement is included in property and equipment at an original cost of \$4,538,794 with accumulated depreciation of \$2,129,444 as of June 30, 2011.

(10) Endowment

The Foundation's endowment consists of approximately 1,000 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's net appreciation 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

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- 4) The long-term and short-term needs of the Foundation and the University in carrying out their purposes
- 5) General economic conditions
- 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 36-month period. In addition, each endowed fund is assessed an annual 1.25% 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 an annualized real (adjusted for inflation) rate of return of 5% 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 1 (g).

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 MSIP, 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, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,244,912)	27,700,700	245,320,242	271,776,030
Board-designated endowment funds	<u>12,922,751</u>	<u>—</u>	<u>—</u>	<u>12,922,751</u>
Total funds	\$ <u><u>11,677,839</u></u>	<u><u>27,700,700</u></u>	<u><u>245,320,242</u></u>	<u><u>284,698,781</u></u>

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 147,681	6,057,746	229,516,188	235,721,615
Investment return:				
Investment income	411,886	3,522,438	—	3,934,324
Net appreciation (realized and unrealized)	<u>11,109,309</u>	<u>24,888,378</u>	<u>519,038</u>	<u>36,516,725</u>
Total investment return	11,521,195	28,410,816	519,038	40,451,049
Contributions	—	—	11,684,459	11,684,459
Appropriation of endowment assets for expenditure	(679,183)	(6,767,862)	—	(7,447,045)
Other changes:				
Other transfers	688,146	—	—	688,146
Change in restrictions by donor	—	—	(1,690,000)	(1,690,000)
Change in value of split interest agreements	<u>—</u>	<u>—</u>	<u>5,290,557</u>	<u>5,290,557</u>
Endowment net assets, end of year	\$ <u><u>11,677,839</u></u>	<u><u>27,700,700</u></u>	<u><u>245,320,242</u></u>	<u><u>284,698,781</u></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 \$1,244,912.

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.