



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 900
50 North Front Street
Memphis, TN 38103-1194

Independent Auditors' Report

The Board of Directors
The University of Mississippi Foundation:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

Opinion

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

KPMG LLP

Memphis, Tennessee
October 15, 2014

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 5,906,694	4,496,639
Pledges receivable, net	20,309,684	11,105,873
Investments	393,596,528	343,967,107
Beneficial interest in perpetual trust	1,075,049	975,748
Property and equipment, net	2,905,275	3,088,339
Other assets	1,491,817	3,691,172
Total assets	<u>\$ 425,285,047</u>	<u>367,324,878</u>
Liabilities and Net Assets		
Funds held for others	\$ 24,213,270	21,485,622
Liabilities under remainder trusts and gift annuities	7,657,837	7,425,349
Other liabilities	4,146,659	4,243,198
Total liabilities	<u>36,017,766</u>	<u>33,154,169</u>
Net assets:		
Unrestricted	18,670,882	20,210,496
Temporarily restricted	177,908,495	134,997,987
Permanently restricted	192,687,904	178,962,226
Total net assets	<u>389,267,281</u>	<u>334,170,709</u>
Total liabilities and net assets	<u>\$ 425,285,047</u>	<u>367,324,878</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ —	33,480,768	10,942,344	44,423,112
Dividend and interest income	1,496,122	5,063,817	—	6,559,939
Net unrealized and realized gains on investments	1,382,842	39,521,915	99,301	41,004,058
Change in value of split-interest agreements	—	—	(9,197)	(9,197)
Other income	706,442	2,295,756	90,496	3,092,694
	<u>3,585,406</u>	<u>80,362,256</u>	<u>11,122,944</u>	<u>95,070,606</u>
Total revenues, gains and other support				
Net assets released from restrictions/ redesignated by donor	29,062,014	(31,664,748)	2,602,734	—
Expenses:				
Support for University activities	30,204,491	5,787,000	—	35,991,491
General and administrative expenses	2,601,524	—	—	2,601,524
Fund-raising expenses	1,381,019	—	—	1,381,019
	<u>34,187,034</u>	<u>5,787,000</u>	<u>—</u>	<u>39,974,034</u>
Total expenses				
Change in net assets	(1,539,614)	42,910,508	13,725,678	55,096,572
Net assets, beginning of year	20,210,496	134,997,987	178,962,226	334,170,709
Net assets, end of year	\$ <u>18,670,882</u>	<u>177,908,495</u>	<u>192,687,904</u>	<u>389,267,281</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ 220,490	20,600,662	6,560,592	27,381,744
Dividend and interest income	1,495,430	5,025,480	—	6,520,910
Net unrealized and realized gains on investments	307,968	24,304,299	—	24,612,267
Change in value of split-interest agreements	—	3,286,929	(333,890)	2,953,039
Other income	582,515	1,664,416	3,409	2,250,340
	<u>2,606,403</u>	<u>54,881,786</u>	<u>6,230,111</u>	<u>63,718,300</u>
Total revenues, gains and other support				
Net assets released from restrictions/ redesignated by donor	40,875,061	(43,261,055)	2,385,994	—
Expenses:				
Support for University activities	31,103,241	—	—	31,103,241
General and administrative expenses	2,293,562	—	—	2,293,562
Fund-raising expenses	1,169,764	—	—	1,169,764
	<u>34,566,567</u>	<u>—</u>	<u>—</u>	<u>34,566,567</u>
Total expenses				
Change in net assets	8,914,897	11,620,731	8,616,105	29,151,733
Net assets, beginning of year	11,295,599	123,377,256	170,346,121	305,018,976
Net assets, end of year	\$ <u>20,210,496</u>	<u>134,997,987</u>	<u>178,962,226</u>	<u>334,170,709</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 55,096,572	29,151,733
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	187,650	189,570
Permanently restricted contributions and split interest agreements	(6,707,263)	(12,717,791)
Gifts in kind transferred to the University	8,396,000	—
Gifts in kind from donors	(6,012,000)	(129,980)
Net realized and unrealized (gains) losses on investments	(40,906,467)	(24,612,267)
Provision for uncollectible pledges	733,853	3,908,219
Changes in operating assets and liabilities:		
Other assets	(409,646)	(38,997)
Pledges receivable	(9,937,664)	4,661,406
Funds held for others	(859,289)	(410,963)
Beneficial interest in perpetual trust	(99,301)	—
Beneficial interest in remainder trust	—	5,512,593
Liabilities under remainder trusts	59,598	1,383,063
Other liabilities	(96,536)	(3,413,773)
Net cash (used in) provided by operating activities	(554,493)	3,482,813
Cash flows from investing activities:		
Purchases of property and equipment	(8,782)	(77,271)
Proceeds from sale of property and equipment	5,907	—
Purchase of investments	(95,581,614)	(117,428,639)
Proceeds from sales and maturities of investments	91,713,501	103,841,870
Net cash used in investing activities	(3,870,988)	(13,664,040)
Cash flows from financing activities:		
Permanently restricted contributions	6,607,263	8,917,791
Receipts under split-interest agreements	100,000	3,800,000
Payments to beneficiaries under remainder trusts	(871,727)	(787,259)
Net cash provided by financing activities	5,835,536	11,930,532
Net increase in cash and cash equivalents	1,410,055	1,749,305
Cash and cash equivalents:		
Beginning of year	4,496,639	2,747,334
End of year	\$ 5,906,694	4,496,639

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(1) Nature of Organization

The University of Mississippi Foundation (the Foundation) is a nonprofit, nonstock corporation formed for the benefit of The University of Mississippi (the University). The Foundation promotes, encourages and assists educational, scientific, literary, research and service activities of the University and its affiliates.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The Foundation prepares its financial statements in accordance with U.S. generally accepted accounting principles, which require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. Such estimates include the present value discount rates applied to the pledges receivable and liabilities under remainder trusts, allowance for uncollectible pledges, fair market values of certain investments including real estate, partnership and member interests and depreciation of property and equipment. Actual results could differ significantly from those estimates.

The Foundation's investments are primarily 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 fair value 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.

(b) Donor-Imposed Restrictions

The financial statements report amounts in three classes of net assets – unrestricted net assets, temporarily restricted net assets and permanently restricted net assets – based on the existence or absence of donor-imposed restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation considers donor contributions to the various University schools and departments to be temporarily restricted as those University units have authority over expenditures. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted.

When a donor restriction expires or the stated purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statements of activities as net assets released from restriction.

The permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from investment thereof be expended. The purpose of such expenditure may also be specified by the donor.

(c) Revenue Recognition

The Foundation generally recognizes gifts as revenue when notified of an unconditional promise to give. Unconditional promises to give that are expected to be collected in future years are reported at

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

the present value of their future cash flows. The discounts on these amounts are computed using risk-free interest rates at the time of the pledge, which are applicable to the years in which the pledges are scheduled to be received. Accretion of the discounts is included in contribution revenue. An allowance for uncollectible pledges is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of the fund-raising activity. A provision for uncollectible pledges of \$734,000 and \$3,908,000 are included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2014 and 2013, respectively. See note 3 for further discussion of pledges receivable. Investments received by gift are recorded at fair value at the date of donation.

The increase in the cash surrender value of life insurance policies is recorded as a component of other income.

The Foundation earns a management fee of 0.5% on certain endowment funds. For the fiscal years ended June 30, 2014 and 2013, such fees totaled approximately \$1,440,000 and \$1,300,000, respectively.

(d) Cash and Cash Equivalents

The Foundation recognizes all demand deposit accounts as cash and cash equivalents. It is the policy of the Foundation to consider money market accounts with brokers as other short-term investments. The Foundation received marketable securities by gift, which were immediately converted to cash and are not reflected in cash flows from investing activities. For the fiscal years ended June 30, 2014 and 2013, such gifts totaled approximately \$1,957,000 and \$5,330,000, respectively.

(e) Investments

Investments are recorded at fair value. The fair values of all investments other than real estate and partnership and membership interests (which include certain private equity investments and hedge funds) are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets or inputs corroborated by observable market data. The Foundation's partnership and member interests 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, 2014 and 2013, the Foundation had no plans or intentions to sell investments at amounts different from NAV. The Foundation's real estate investments are initially recognized at fair value based on appraised values at the date of receipt and are subsequently carried at the lower of cost or fair value. Both realized and unrealized gains and losses are classified in the accompanying statements of activities based on restrictions put in place by the donor.

(f) Tax Status

The Foundation is recognized as an organization exempt from federal income tax under Section 501(a) as an entity described in Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2014 and 2013 for cash and cash equivalents, pledges receivable, beneficial interest in perpetual trust, funds held for others, liabilities under remainder trusts and other liabilities approximate their fair values. See note 4 for investments.

(h) Split-Interest Agreements

The Foundation accepts gifts subject to split-interest agreements. These gifts are generally in the form of charitable remainder unitrusts (CRUTs) and charitable remainder annuity trusts (CRATs). At the time of receipt, a gift is recorded based upon the fair value of the assets donated less the present value of any applicable liabilities for projected distributions to third parties. The discount rate used to value the beneficiary liability is fixed at the gift date. CRUTs are revalued annually and the projected beneficiary payments adjusted accordingly. Gifts subject to split-interest agreements are classified as temporarily restricted or permanently restricted based upon donor designations.

Previously, the Foundation was named as the beneficiary of one externally managed charitable remainder trust. This trust was originally recorded and carried at the present value of the estimated future cash receipts from the assets of the trust. In fiscal 2013, this trust matured and the proceeds were distributed to the Foundation.

(i) Recent Accounting Pronouncements

The FASB recently issued ASU No. 2013-06 Not-for-Profit Entities (Topic 958): *Services Received from Personnel for an Affiliate* (a consensus of the FASB Emerging Issues Task Force), which requires not-for-profit entities receiving services from affiliated entities to recognize services performed by employees of the affiliate generally at the affiliate's cost of services. The ASU will be effective prospectively beginning with the fiscal year ending June 30, 2015. The Foundation does not receive such services and has therefore concluded that this ASU will not have an impact on the Foundation's accompanying financial statements.

(j) Subsequent Events

In connection with the preparation of the financial statements and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 855, *Subsequent Events*, the Foundation evaluated subsequent events after the statement of financial position date of June 30, 2014 through October 15, 2014, which was the date the financial statements were available to be issued.

(k) Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2014, pledges were scheduled to mature at various dates through 2034 (approximately \$11,277,000 is due in fiscal year 2015, \$16,922,000 is due in total during the period including fiscal year 2016 through fiscal

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

year 2020, and \$1,257,000 is due thereafter). At June 30, 2013, pledges were scheduled to mature at various dates through 2034 (approximately \$6,539,000 was due in fiscal year 2014, \$11,926,000 was due in total during the period including fiscal year 2015 through fiscal year 2019, and \$504,000 was due thereafter). A summary of pledges receivable as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Temporarily restricted	\$ 17,506,951	12,010,510
Permanently restricted	<u>11,949,005</u>	<u>6,958,428</u>
	29,455,956	18,968,938
Allowances for uncollectible pledges	(6,103,349)	(5,370,295)
Present value discounts (ranging from 1.6% to 6.1%)	<u>(3,042,923)</u>	<u>(2,492,770)</u>
	<u>\$ 20,309,684</u>	<u>11,105,873</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Liquidity period</u>
Investment strategy:			
Fixed income:			
U.S. government securities	\$ 1,477,412	1,551,274	Daily
Corporate bonds	18,425,173	19,639,188	Daily
Certificates of deposit	503,804	—	Annually
Other fixed income securities	<u>51,018,469</u>	<u>71,798,645</u>	Daily
Total fixed income	<u>71,424,858</u>	<u>92,989,107</u>	
Equities:			
Common stocks	2,708,889	2,388,803	Daily
Common stock funds	47,561,792	31,444,225	Daily
Mutual funds	13,065,871	8,489,994	Daily
Index funds	<u>82,668,594</u>	<u>69,076,899</u>	Daily
Total equities	<u>146,005,146</u>	<u>111,399,921</u>	
Hedge funds	<u>129,883,742</u>	<u>100,612,776</u>	Various ¹
Venture capital and private equity	<u>25,518,456</u>	<u>18,940,187</u>	Illiquid ²
Real estate and other investments:			
Real estate owned and other investments	5,136,673	4,943,308	Illiquid
Timber fund	12,305,905	11,890,742	Illiquid ³
Partnership interest	<u>750,000</u>	<u>750,000</u>	Illiquid ⁴
Total real estate	<u>18,192,578</u>	<u>17,584,050</u>	
Other short-term investments	<u>2,571,748</u>	<u>2,441,066</u>	Daily
Total investments	<u>\$ 393,596,528</u>	<u>343,967,107</u>	

¹ The majority of these hedge funds have liquidation terms that allow the Foundation to liquidate its investment in the fund on a quarterly basis but require prior notification ranging from 30 to 65 days.

² These venture capital and private equity investments have liquidation terms that allow the Foundation to investment in the different funds after 7 to 12 years depending on the investment.

³ This fund represents an interest in a partnership that invests solely in timber land and allows for liquidation after a 10-year term.

⁴ This investment represents a 49% interest in a commercial property. The investment would be liquidated upon the sale of the property.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(5) Beneficial Interest in Perpetual Trust

In fiscal 2013, the Foundation was notified that it had been named as the beneficiary of a perpetual trust created in that year upon the death of the donor. The interest is shared with an unrelated charitable organization, and the Foundation's interest equated to \$910,000 based on the fair value of the assets placed in the trust. Income is paid quarterly from the trust to the Foundation, which, in turn, distributes such funds to an account for the benefit of the University's School of Accountancy. The Foundation's interest in this trust totaled approximately \$1,075,000 and \$976,000 at June 30, 2014 and 2013, respectively.

(6) Fair Value Measurement

ASC Topic 820, *Fair Value Measurements*, 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: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;
- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- Level 3: Significant unobservable inputs for the asset or liability that reflects the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability. These assumptions are based on audited financial statements provided by the general partner of the investment combined with additional third party due diligence.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In accordance with Accounting Standards Update (ASU) 2009-12, *Investments that can be Redeemed at Net Asset Value on the Measurement Date or in the Near Term*, such investments may be classified as Level 2, depending upon the redemption features of such investments. NAV is used as a practical expedient to estimate the fair value of such investments 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, 2014 and 2013, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	1,477,412	—	1,477,412
Corporate bonds	—	18,425,173	—	18,425,173
Certificates of deposit	—	503,804	—	503,804
Other fixed income securities	40,614,185	10,404,284	—	51,018,469
Total fixed income	<u>40,614,185</u>	<u>30,810,673</u>	<u>—</u>	<u>71,424,858</u>
Equities:				
Common stocks	2,708,889	—	—	2,708,889
Common stock funds	47,561,792	—	—	47,561,792
Mutual funds	13,065,871	—	—	13,065,871
Index funds	82,668,594	—	—	82,668,594
Total equities	<u>146,005,146</u>	<u>—</u>	<u>—</u>	<u>146,005,146</u>
Hedge funds	—	101,499,005	28,384,737	129,883,742
Venture capital and private equity	—	—	25,518,456	25,518,456
Real estate:				
Real estate owned	—	—	5,136,673	5,136,673
Timber fund	—	—	12,305,905	12,305,905
Partnership interest	—	—	750,000	750,000
Total real estate	<u>—</u>	<u>—</u>	<u>18,192,578</u>	<u>18,192,578</u>
Other short-term investments	2,571,748	—	—	2,571,748
Total investments	<u>\$ 189,191,079</u>	<u>132,309,678</u>	<u>72,095,771</u>	<u>393,596,528</u>
Beneficial interest in perpetual trust	\$ 820,979	254,070	—	1,075,049

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	1,551,274	—	1,551,274
Corporate bonds	—	19,639,188	—	19,639,188
Certificates of deposit	—	—	—	—
Other fixed income securities	<u>61,984,177</u>	<u>9,814,468</u>	—	<u>71,798,645</u>
Total fixed income	<u>61,984,177</u>	<u>31,004,930</u>	—	<u>92,989,107</u>
Equities:				
Common stocks	2,388,803	—	—	2,388,803
Common stock funds	31,444,225	—	—	31,444,225
Mutual funds	8,489,994	—	—	8,489,994
Index funds	<u>69,076,899</u>	—	—	<u>69,076,899</u>
Total equities	<u>111,399,921</u>	—	—	<u>111,399,921</u>
Hedge funds	—	<u>96,451,152</u>	<u>4,161,624</u>	<u>100,612,776</u>
Venture capital and private equity	—	—	<u>18,940,187</u>	<u>18,940,187</u>
Real estate:				
Real estate owned	—	—	4,943,308	4,943,308
Timber fund	—	—	11,890,742	11,890,742
Partnership interest	—	—	<u>750,000</u>	<u>750,000</u>
Total real estate	—	—	<u>17,584,050</u>	<u>17,584,050</u>
Other short-term investments	<u>2,441,066</u>	—	—	<u>2,441,066</u>
Total investments	<u>\$ 175,825,164</u>	<u>127,456,082</u>	<u>40,685,861</u>	<u>343,967,107</u>
Beneficial interest in perpetual trust	\$ 975,748	—	—	975,748

See note 2(e), Investments, for information regarding the methods used to determine the fair value of the Foundation's investments. These methods 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

The following table includes a rollforward of the amounts for the years ended June 30, 2014 and 2013 for investments classified within Level 3:

	<u>Real estate</u>	<u>Venture capital and private equity</u>	<u>Beneficial interest in remainder trust</u>	<u>Hedge funds</u>
Balance as of June 30, 2012	\$ 17,565,697	14,854,261	5,512,593	—
Net realized and unrealized gain (loss)	173,243	1,211,783	3,286,929	302,164
Acquisitions	129,980	4,060,062	—	3,859,460
Dispositions	<u>(284,870)</u>	<u>(1,185,919)</u>	<u>(8,799,522)</u>	<u>—</u>
Balance as of June 30, 2013	17,584,050	18,940,187	—	4,161,624
Net realized and unrealized gain (loss)	1,036,201	1,062,525	—	4,827,268
Acquisitions	6,012,000	8,678,273	—	19,395,845
Dispositions	<u>(6,439,673)</u>	<u>(3,162,529)</u>	<u>—</u>	<u>—</u>
Balance as of June 30, 2014	<u>\$ 18,192,578</u>	<u>25,518,456</u>	<u>—</u>	<u>28,384,737</u>

Hedge funds include long/short equity funds, fixed income funds and multi-strategy funds. These funds generally invest directly into corporate equity and debt securities. Venture capital and private equity investments are comprised of funds primarily invested in startup entities with high growth potential. Real estate investments consist of funds invested directly or indirectly in real property. The table below represents a summary of the fair value, unfunded commitments, eligible redemption frequency and expected life of the respective investments as of June 30, 2014:

<u>Investment</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if eligible)</u>	<u>Redemption notice period</u>	<u>Expected life span of investment</u>
Hedge funds (Level 2)	\$ 101,499,005	—	At least quarterly	30–90 days	Indefinite
Hedge funds (Level 3)	28,384,737	2,019,695	No redemption feature	None	Indefinite to 7 yrs
Venture capital & private equity	25,518,456	16,811,485	No redemption feature	None	7 to 12 years
Real estate:					
Timber fund	12,305,905	—	No redemption feature	None	10 years
Real estate	5,886,673	—	No redemption feature	None	Indefinite

(7) Net Asset Classification of Endowment Funds

The Foundation has adopted ASC Topic 958-205, *Enhanced Disclosures for All Endowment Funds, and 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)*. This standard provides guidance on the net asset classification of donor-restricted endowment funds and related disclosures. ASC Topic 958-205 also provides guidance relative to net asset classification of funds subject to UPMIFA.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

When adopted by the state of domicile, UPMIFA requires a number of management assessments, including:

- Determination as to whether a donor intended an endowment to maintain its purchasing power or as a fixed sum,
- The classification of endowment earnings, and
- The ability to spend corpus of an endowment.

The State of Mississippi adopted UPMIFA effective July 1, 2012. 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 gift. 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 and other income. 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 expenditure in accordance with the donor memorandums of agreement.

The Foundation has established policies to achieve the overall, long-term investment goal of achieving an annualized total return, through appreciation and income, greater than the rate of inflation plus any distribution needs, thus protecting the assets against inflation. The Foundation's Board and Joint Committee on Investments agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets are invested in equity or equity-like securities. Fixed income securities are used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity market returns. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. The primary performance objective of the Foundation is to achieve a total return, net of investment management fees and expenses, in excess of inflation and the spending rate.

Income available for spending is determined by a total return system and is approved by the Board of Directors of the Foundation. The amount to be spent for the endowed purpose is calculated based on a percentage of a 3-year moving average of the endowment's market value. The objective is to provide relatively stable spending allocations. However, no portion of the original gift value of the endowed assets will be allocated for spending.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

Changes in donor-restricted endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment net assets (deficit), June 30, 2012	\$ (405,737)	51,538,466	163,470,384	214,603,113
Contributions and transfers to endowment	—	—	19,214,444	19,214,444
Appropriation for expenditures	—	(8,209,170)	—	(8,209,170)
Investment return:				
Investment income	—	4,456,379	—	4,456,379
Net appreciation	223,676	21,018,565	—	21,242,241
Donor-restricted endowment net assets (deficit), June 30, 2013	(182,061)	68,804,240	182,684,828	251,307,007
Contributions and transfers to endowment	—	—	9,486,836	9,486,836
Appropriation for expenditures	—	(7,300,572)	—	(7,300,572)
Investment return:				
Investment income	—	3,733,409	—	3,733,409
Net appreciation	182,061	36,043,250	165,048	36,390,359
Donor-restricted endowment net assets (deficit), June 30, 2014	\$ —	101,280,327	192,336,712	293,617,039

As a result of unfavorable volatility in the financial markets, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains that restore the fair value of assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no endowment funds with deficiencies as of June 30, 2014, and approximately \$182,000 of such deficiencies as of June 30, 2013.

The following table provides a reconciliation of the donor-restricted net assets shown in the previous table to the permanently restricted net assets presented in the statements of financial position as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Donor-restricted endowment net assets	\$ 192,336,712	182,684,828
Permanently restricted pledges receivable	7,841,936	3,563,940
Liabilities under remainder trusts	(7,657,837)	(7,425,349)
Cash value of life insurance	167,093	138,807
Permanently restricted net assets	\$ 192,687,904	178,962,226

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(8) Life Insurance Policies

The Foundation has been gifted life insurance policies for which it has been named owner and beneficiary. The face amounts of life insurance policies in excess of cash surrender values held by the Foundation are deferred and recognized as revenue only when collected. The cash surrender value amounts of such policies as of June 30, 2014 and 2013 were \$799,000 and \$686,000, respectively, which are reflected as other assets in the accompanying statements of financial position.

(9) Charitable Trusts and Gift Annuities

The Foundation administers charitable remainder trusts with investments of approximately \$8,338,000 and \$8,133,000 as of June 30, 2014 and 2013, respectively, which are reported as investments on the statements of financial position. Additionally, the cash contributed to purchase gift annuities is reported within investments on the statement of financial position. Pursuant to the trust agreements, specified amounts of income from the trust's assets must be distributed to the income beneficiaries each year. Liabilities under these trusts and gift annuities totaled approximately \$7,658,000 and \$7,425,000 as of June 30, 2014 and 2013, respectively. The discount rates used in these measurements range from 4.78% to 6.20%. The remainder of the income and the assets will become the property of the Foundation at a time designated in the trust agreements, usually upon the death of the income beneficiary.

(10) Property and Equipment

Property and equipment consist of the following at June 30, 2014 and 2013:

	2014	2013
Land	\$ 300,000	300,000
Building and equipment	2,836,320	2,858,636
Furniture and fixtures	1,697,514	1,697,514
Total	4,833,834	4,856,150
Accumulated depreciation	(1,928,559)	(1,767,811)
Property and equipment, net	\$ 2,905,275	3,088,339

Depreciation expense has been computed utilizing the straight-line method over the estimated useful life of the building – 30 years, the equipment – 7 to 10 years and the furniture and fixtures – 10 to 30 years.

(11) Gifts in Kind

In previous years, a donor gifted the Foundation with oriental rugs having a total appraised value of approximately \$7,036,000. As of June 30, 2013, the Foundation had transferred approximately \$3,019,000 of these rugs to the University for use on campus with the remaining rugs held by the Foundation and presented in the statement of financial position in property and equipment and other assets. During the year ended June 30, 2014, the Foundation transferred \$2,609,000 of rugs previously shown in other assets to the University. As of June 30, 2014 and 2013, property and equipment includes approximately \$1,407,000 of rugs placed in service within several Foundation properties.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

During the year ended June 30, 2014, a donor gifted a real estate property to the Foundation with an appraised value of \$5,787,000. This property was transferred to the University prior to year end. The Foundation received one additional real estate property in fiscal 2014 valued at \$225,000 which is reflected in investments at June 30, 2014.

For fiscal 2014, gifts in kind of property received totaled \$6,012,000. Gifts in kind of property transferred to the University totaled \$8,396,000.

(12) Net Assets

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

	<u>2014</u>	<u>2013</u>
Academic and program support	\$ 33,518,733	34,651,852
Scholarship support	87,164,527	79,587,143
Faculty support	58,466,198	52,287,041
Library support	13,538,446	12,436,190
Total	<u>\$ 192,687,904</u>	<u>178,962,226</u>

The vast majority of temporarily restricted net assets at June 30, 2014 and 2013 were available for academic and program support.

(13) Funds Held for Others

The Foundation administered funds for others of approximately \$24,213,000 and \$21,486,000 at June 30, 2014 and 2013, respectively. These funds are commingled with the Foundation's investments and are accounted for at the fair value of the underlying investments. Earnings and losses from these investments, as well as funds received and distributed, are not included in the statements of activities of the Foundation.

The Foundation assists with fund-raising activities of the University and processes the receipts for many University-affiliated organizations. During fiscal years 2014 and 2013, the Foundation received approximately \$576,000 and \$750,000, respectively, for the University of Mississippi Alumni Association and \$27,185,000 and \$25,665,000, respectively, for the Ole Miss Athletics Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for fiscal years 2014 and 2013 include approximately \$742,000 and \$809,000, respectively, to the University of Mississippi Alumni Association and \$26,882,000 and \$25,896,000, respectively, to the Ole Miss Athletics Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During fiscal years 2014 and 2013, the Foundation received approximately \$75 and \$150,000, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$1,128,000 and \$653,000, respectively.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2014 and 2013

(14) Mississippi Common Fund Trust

Included in other liabilities are \$265,000 and \$454,000 at June 30, 2014 and 2013, respectively, related to the Mississippi Common Fund Trust. This donor-directed trust was established by the Foundation to allow donors to receive a charitable deduction for gifts to the trust. The Foundation manages the trust's assets, with earnings distributed to charitable organizations, at the donor's direction, on an annual basis. If the donor does not make an annual designation of funds to a charitable organization, then such designation may be made by the Foundation. Remaining corpus must be disbursed to one or more qualifying charitable organizations within one year after the death of the donor's surviving spouse as directed through the donor's will or other instruction or it will revert to the Foundation.