



**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Triad Centre III  
Suite 450  
6070 Poplar Avenue  
Memphis, TN 38119-3901

## **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, 2015 and 2014, 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, 2015 and 2014, 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 20, 2015

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statements of Financial Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 7,730,829	5,906,694
Pledges receivable, net	31,607,327	20,309,684
Investments	402,030,176	393,596,528
Beneficial interest in perpetual trust	1,066,611	1,075,049
Property and equipment, net	2,778,494	2,905,275
Other assets	1,317,964	1,491,817
Total assets	\$ 446,531,401	425,285,047
<b>Liabilities and Net Assets</b>		
Funds held for others	\$ 23,360,075	24,213,270
Liabilities under remainder trusts and gift annuities	7,265,250	7,657,837
Other liabilities	5,385,420	4,146,659
Total liabilities	36,010,745	36,017,766
Net assets:		
Unrestricted	17,186,241	18,670,882
Temporarily restricted	183,044,292	177,908,495
Permanently restricted	210,290,123	192,687,904
Total net assets	410,520,656	389,267,281
Total liabilities and net assets	\$ 446,531,401	425,285,047

See accompanying notes to financial statements.

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ —	34,869,998	13,944,742	48,814,740
Dividend and interest income	1,405,085	3,445,866	—	4,850,951
Net unrealized and realized gains (losses) on investments	(517,879)	2,783,751	4,622	2,270,494
Change in value of split-interest agreements	—	—	(191,373)	(191,373)
Other income	717,926	1,396,326	69,232	2,183,484
Total revenues, gains and other support	<u>1,605,132</u>	<u>42,495,941</u>	<u>13,827,223</u>	<u>57,928,296</u>
Net assets released from restrictions/ redesignated by donor	33,585,148	(37,360,144)	3,774,996	—
Expenses:				
Support for University activities	32,713,155	—	—	32,713,155
General and administrative expenses	2,777,658	—	—	2,777,658
Fund-raising expenses	1,184,108	—	—	1,184,108
Total expenses	<u>36,674,921</u>	<u>—</u>	<u>—</u>	<u>36,674,921</u>
Change in net assets	(1,484,641)	5,135,797	17,602,219	21,253,375
Net assets, beginning of year	<u>18,670,882</u>	<u>177,908,495</u>	<u>192,687,904</u>	<u>389,267,281</u>
Net assets, end of year	<u>\$ 17,186,241</u>	<u>183,044,292</u>	<u>210,290,123</u>	<u>410,520,656</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**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Change in net assets	\$ 21,253,375	55,096,572
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	189,126	187,650
Permanently restricted contributions and split interest agreements	(12,770,985)	(6,707,263)
Gifts in kind transferred to the University	—	8,396,000
Gifts in kind from donors	(876,700)	(6,012,000)
Net realized and unrealized (gains) losses on investments	(2,270,494)	(40,906,467)
Provision for uncollectible pledges	2,574,534	733,853
Changes in operating assets and liabilities:		
Other assets	173,853	(409,646)
Pledges receivable	(13,872,177)	(9,937,664)
Funds held for others	(885,081)	(859,289)
Beneficial interest in perpetual trust	8,438	(99,301)
Liabilities under remainder trusts	192,881	59,598
Other liabilities	1,238,761	(96,536)
Net cash used in operating activities	(5,044,469)	(554,493)
Cash flows from investing activities:		
Purchases of property and equipment	(62,345)	(8,782)
Proceeds from sale of property and equipment	—	5,907
Purchase of investments	(186,935,730)	(95,581,614)
Proceeds from sales and maturities of investments	181,924,133	91,713,501
Net cash used in investing activities	(5,073,942)	(3,870,988)
Cash flows from financing activities:		
Permanently restricted contributions	12,770,985	6,607,263
Receipts under split-interest agreements	—	100,000
Payments to beneficiaries under remainder trusts	(828,439)	(871,727)
Net cash provided by financing activities	11,942,546	5,835,536
Net increase in cash and cash equivalents	1,824,135	1,410,055
Cash and cash equivalents:		
Beginning of year	5,906,694	4,496,639
End of year	\$ 7,730,829	5,906,694

See accompanying notes to financial statements.

# THE UNIVERSITY OF MISSISSIPPI FOUNDATION

## Notes to Financial Statements

June 30, 2015 and 2014

### (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 present value of their future cash flows. The discounts on these amounts are computed using

# THE UNIVERSITY OF MISSISSIPPI FOUNDATION

## Notes to Financial Statements

June 30, 2015 and 2014

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 \$2,575,000 and \$734,000 are included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, such fees totaled approximately \$1,606,000 and \$1,440,000, 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, 2015 and 2014, such gifts totaled approximately \$3,032,000 and \$1,957,000, 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, 2015 and 2014, 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. As of June 30, 2015 and 2014, there were no material uncertain tax positions.

# THE UNIVERSITY OF MISSISSIPPI FOUNDATION

## Notes to Financial Statements

June 30, 2015 and 2014

**(g) Fair Value of Financial Instruments**

The carrying amounts at June 30, 2015 and 2014 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.

**(i) Recent Accounting Pronouncements**

The FASB 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 is effective for the fiscal year ended June 30, 2015. The Foundation did not receive such services during the year ended June 30, 2015.

In May 2015, the FASB issued ASU No. 2015-07 Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient as discussed in FASB Subtopic 820-10. Retrospective application to all prior periods presented in the notes to the financial statements will be required. The ASU will be effective for fiscal years beginning after December 15, 2016.

**(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, 2015 through October 20, 2015, which was the date the financial statements were available to be issued.

**(3) Pledges Receivable**

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2015, pledges were scheduled to mature at various dates through 2036 (approximately \$11,024,000 is due in fiscal year 2016, \$18,258,000 is due in total during the period including fiscal year 2017 through fiscal year 2021, and \$17,865,000 is due thereafter). At June 30, 2014, pledges were scheduled to mature at various dates through 2034 (approximately \$11,277,000 was due in fiscal year 2015, \$16,922,000 was due in total

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

during the period including fiscal year 2016 through fiscal year 2020, and \$1,257,000 was due thereafter). A summary of pledges receivable as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Temporarily restricted	\$ 32,918,752	17,506,951
Permanently restricted	<u>14,228,737</u>	<u>11,949,005</u>
	47,147,489	29,455,956
Allowances for uncollectible pledges	(7,603,938)	(6,103,349)
Present value discounts (ranging from 1.6% to 6.1%)	<u>(7,936,224)</u>	<u>(3,042,923)</u>
	<u>\$ 31,607,327</u>	<u>20,309,684</u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

**(4) Investments**

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 1,566,262	1,477,412
Corporate bonds	18,577,303	18,425,173
Certificates of deposit	510,855	503,804
Other fixed income securities	50,631,349	51,018,469
Total fixed income	<u>71,285,769</u>	<u>71,424,858</u>
Equities:		
Common stocks	10,028,888	9,946,307
Common stock funds:		
International	23,187,289	47,561,792
Global	44,265,203	—
Mutual funds	5,769,565	5,828,453
Index funds:		
Large cap	7,932,154	24,396,010
Mid cap	9,120,368	22,899,428
Small cap	24,966,656	23,967,054
International	—	9,477,678
REITs	2,002,778	1,928,424
Total equities	<u>127,272,901</u>	<u>146,005,146</u>
Hedge funds:		
Event driven	24,067,503	21,097,141
Relative value	15,308,421	15,165,556
Energy MLP	18,778,352	21,525,691
Natural resource private fund	11,360,356	10,839,916
High income	15,510,547	10,452,042
Other	35,650,784	50,803,396
Total hedge funds	<u>120,675,963</u>	<u>129,883,742</u>
Venture capital and private equity	<u>59,498,831</u>	<u>25,518,456</u>
Real estate and other investments:		
Real estate owned and other investments	4,600,673	5,136,673
Timber fund	12,231,787	12,305,905
Partnership interest	750,000	750,000
Total real estate	<u>17,582,460</u>	<u>18,192,578</u>
Other short-term investments	<u>5,714,252</u>	<u>2,571,748</u>
Total investments	<u>\$ 402,030,176</u>	<u>393,596,528</u>

## THE UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2015 and 2014

#### (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 \$1,067,000 and \$1,075,000 at June 30, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	1,566,262	—	1,566,262
Corporate bonds	—	18,577,303	—	18,577,303
Certificates of deposit	—	510,855	—	510,855
Other fixed income securities	40,179,204	10,452,145	—	50,631,349
Total fixed income	<u>40,179,204</u>	<u>31,106,565</u>	<u>—</u>	<u>71,285,769</u>
Equities:				
Common stocks	10,028,888	—	—	10,028,888
Common stock funds:				
International	23,187,289	—	—	23,187,289
Global	—	44,265,203	—	44,265,203
Mutual funds	5,769,565	—	—	5,769,565
Index funds:				
Large cap	7,932,154	—	—	7,932,154
Mid cap	9,120,368	—	—	9,120,368
Small cap	24,966,656	—	—	24,966,656
REITs	2,002,778	—	—	2,002,778
Total equities	<u>83,007,698</u>	<u>44,265,203</u>	<u>—</u>	<u>127,272,901</u>
Hedge funds:				
Event driven	—	24,067,503	—	24,067,503
Relative value	—	15,308,421	—	15,308,421
Energy MLP	—	18,778,352	—	18,778,352
Natural resource private fund	—	—	11,360,356	11,360,356
High income	—	—	15,510,547	15,510,547
Other	—	28,253,197	7,397,587	35,650,784
Total hedge funds	<u>—</u>	<u>86,407,473</u>	<u>34,268,490</u>	<u>120,675,963</u>
Venture capital and private equity	<u>—</u>	<u>—</u>	<u>59,498,831</u>	<u>59,498,831</u>
Real estate:				
Real estate owned	—	—	4,600,673	4,600,673
Timber fund	—	—	12,231,787	12,231,787
Partnership interest	—	—	750,000	750,000
Total real estate	<u>—</u>	<u>—</u>	<u>17,582,460</u>	<u>17,582,460</u>
Other short-term investments	<u>5,714,252</u>	<u>—</u>	<u>—</u>	<u>5,714,252</u>
Total investments	<u>\$ 128,901,154</u>	<u>161,779,241</u>	<u>111,349,781</u>	<u>402,030,176</u>
Beneficial interest in perpetual trust	<u>\$ 757,652</u>	<u>308,959</u>	<u>—</u>	<u>1,066,611</u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

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	9,946,307	—	—	9,946,307
Common stock funds:				
International	47,561,792	—	—	47,561,792
Mutual funds	5,828,453	—	—	5,828,453
Index funds:				
Large cap	24,396,010	—	—	24,396,010
Mid cap	22,899,428	—	—	22,899,428
Small cap	23,967,054	—	—	23,967,054
International	9,477,678	—	—	9,477,678
REITs	1,928,424	—	—	1,928,424
Total equities	<u>146,005,146</u>	<u>—</u>	<u>—</u>	<u>146,005,146</u>
Hedge funds:				
Event driven	—	21,097,141	—	21,097,141
Relative value	—	15,165,556	—	15,165,556
Energy MLP	—	21,525,691	—	21,525,691
Natural resource private fund	—	—	10,839,916	10,839,916
High income	—	—	10,452,042	10,452,042
Other	—	43,710,617	7,092,779	50,803,396
Total hedge funds	<u>—</u>	<u>101,499,005</u>	<u>28,384,737</u>	<u>129,883,742</u>
Venture capital and private equity	<u>—</u>	<u>—</u>	<u>25,518,456</u>	<u>25,518,456</u>
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	<u>2,571,748</u>	<u>—</u>	<u>—</u>	<u>2,571,748</u>
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	<u>\$ 820,979</u>	<u>254,070</u>	<u>—</u>	<u>1,075,049</u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

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 following table includes a rollforward of the amounts for the years ended June 30, 2015 and 2014 for investments classified within Level 3:

	<u>Real estate</u>	<u>Venture capital and private equity</u>	<u>Hedge funds</u>
Balance as of June 30, 2013	\$ 17,584,050	18,940,187	4,161,624
Net realized and unrealized gain	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>
Balance as of June 30, 2014	18,192,578	25,518,456	28,384,737
Net realized and unrealized gain (loss)	(47,460)	3,409,944	915,178
Acquisitions	876,700	32,798,413	5,202,481
Dispositions	<u>(1,439,358)</u>	<u>(2,227,982)</u>	<u>(233,906)</u>
Balance as of June 30, 2015	\$ <u>17,582,460</u>	<u>59,498,831</u>	<u>34,268,490</u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015:

<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):					
Event driven	\$ 24,067,503	—	Quarterly	60 days	Indefinite
Relative value	15,308,421	—	Quarterly	90-120 days	Indefinite
Energy MLP	18,778,352	—	Monthly	30 days	Indefinite
Other	28,253,197	—	Quarterly	60-120 days	Indefinite
	<u>86,407,473</u>				
Hedge funds (Level 3):					
Natural resource private fund	11,360,356	1,576,000	No redemption feature	None	10 years
High income	15,510,547	—	Unavailable until 6/1/16	N/A	Indefinite
Other	7,397,587	—	No redemption feature	None	5 years
	<u>34,268,490</u>				
Venture capital & private equity	59,498,831	22,445,800	No redemption feature	None	7 to 12 years
Real estate:					
Timber fund	12,231,787	—	No redemption feature	None	10 years
Real estate	4,600,673	—	No redemption feature	None	Indefinite
Partnership interest	750,000	—	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. 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 UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2015 and 2014

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 or equal to 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, equal to or 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, 2015 and 2014

Changes in donor-restricted endowment net assets for the years ended June 30, 2015 and 2014 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, 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	<u>182,061</u>	<u>36,043,250</u>	<u>165,048</u>	<u>36,390,359</u>
Donor-restricted endowment net assets (deficit), June 30, 2014	—	101,280,327	192,336,712	293,617,039
Contributions and transfers to endowment	—	—	15,997,132	15,997,132
Appropriation for expenditures	—	(8,854,211)	—	(8,854,211)
Investment return:				
Investment income	—	17,785,231	—	17,785,231
Net appreciation (depreciation)	<u>(2,501)</u>	<u>(12,497,150)</u>	<u>4,622</u>	<u>(12,495,029)</u>
Donor-restricted endowment net assets (deficit), June 30, 2015	\$ <u>(2,501)</u>	<u>97,714,197</u>	<u>208,338,466</u>	<u>306,050,162</u>

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 endowment funds with deficiencies totaling approximately \$3,000 as of June 30, 2015, and no endowments with such deficiencies as of June 30, 2014.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Donor-restricted endowment net assets	\$ 208,338,466	192,336,712
Permanently restricted pledges receivable, net	9,012,693	7,841,936
Liabilities under remainder trusts	(7,265,250)	(7,657,837)
Cash value of life insurance	<u>204,214</u>	<u>167,093</u>
Permanently restricted net assets	\$ <u>210,290,123</u>	<u>192,687,904</u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

**(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, 2015 and 2014 were \$867,000 and \$799,000, 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 \$8,057,000 and \$8,338,000 as of June 30, 2015 and 2014, 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 statements 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 \$7,265,000 and \$7,658,000 as of June 30, 2015 and 2014, 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, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Land	\$ 300,000	300,000
Building and equipment	2,860,720	2,836,320
Furniture and fixtures	1,700,882	1,697,514
Total	4,861,602	4,833,834
Accumulated depreciation	(2,083,108)	(1,928,559)
Property and equipment, net	\$ 2,778,494	2,905,275

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 of which \$5,089,000 of these rugs the Foundation has transferred to the University for use on campus with the remaining rugs held by the Foundation. 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, 2015 and 2014, property and equipment includes approximately \$1,407,000 of rugs placed in service within several Foundation properties.

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

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2015 and 2014

received one additional real estate property in fiscal 2014 valued at \$225,000 which is reflected in investments at June 30, 2014.

For fiscal 2015 and 2014, gifts in kind of property received totaled \$877,000 and \$6,012,000, respectively. There were no gifts in kind transferred to the University in the current fiscal year. Gifts in kind of property transferred to the University totaled \$8,396,000 for fiscal 2014.

**(12) Net Assets**

Permanently restricted net assets at June 30, 2015 and 2014 were restricted for the following purposes:

	<b>2015</b>	<b>2014</b>
Academic and program support	\$ 37,007,735	33,518,733
Scholarship support	93,164,265	87,164,527
Faculty support	66,401,886	58,466,198
Library support	13,716,237	13,538,446
Total	\$ 210,290,123	192,687,904

The vast majority of temporarily restricted net assets at June 30, 2015 and 2014 were available for academic and program support.

**(13) Funds Held for Others**

The Foundation administered funds for others of approximately \$23,360,000 and \$24,213,000 at June 30, 2015 and 2014, 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 2015 and 2014, the Foundation received approximately \$552,000 and \$576,000, respectively, for the University of Mississippi Alumni Association and \$33,578,000 and \$27,185,000, 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 2015 and 2014 include approximately \$818,000 and \$742,000, respectively, to the University of Mississippi Alumni Association and \$35,232,000 and \$26,882,000, 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 2015 and 2014, the Foundation received approximately \$17 and \$75, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$621,000 and \$1,128,000, respectively.

# THE UNIVERSITY OF MISSISSIPPI FOUNDATION

## Notes to Financial Statements

June 30, 2015 and 2014

### **(14) Mississippi Common Fund Trust**

Included in other liabilities are \$213,000 and \$265,000 at June 30, 2015 and 2014, 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.