



**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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 14, 2016

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statements of Financial Position

June 30, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 8,728,828	7,730,829
Pledges receivable, net	51,542,933	31,607,327
Investments	396,683,891	402,030,176
Beneficial interest in trusts	7,450,869	1,066,611
Property and equipment, net	2,542,793	2,778,494
Other assets	<u>1,290,526</u>	<u>1,317,964</u>
Total assets	\$ <u><u>468,239,840</u></u>	<u><u>446,531,401</u></u>
<b>Liabilities and Net Assets</b>		
Funds held for others	\$ 22,056,528	23,360,075
Liabilities under remainder trusts and gift annuities	5,574,469	7,265,250
Other liabilities	<u>7,558,472</u>	<u>5,385,420</u>
Total liabilities	<u>35,189,469</u>	<u>36,010,745</u>
Net assets:		
Unrestricted	16,348,947	17,186,241
Temporarily restricted	193,482,320	183,044,292
Permanently restricted	<u>223,219,104</u>	<u>210,290,123</u>
Total net assets	<u>433,050,371</u>	<u>410,520,656</u>
Total liabilities and net assets	\$ <u><u>468,239,840</u></u>	<u><u>446,531,401</u></u>

See accompanying notes to financial statements.

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ —	51,015,382	9,452,422	60,467,804
Dividend and interest income	1,486,945	3,764,476	—	5,251,421
Net unrealized and realized gains (losses) on investments	(676,744)	(11,177,334)	11,006	(11,843,072)
Change in value of split-interest agreements	—	62,142	687,862	750,004
Other income	742,007	1,271,994	40,430	2,054,431
	<u>1,552,208</u>	<u>44,936,660</u>	<u>10,191,720</u>	<u>56,680,588</u>
Total revenues, gains and other support				
Net assets released from restrictions/ redesignated by donor	31,761,371	(34,498,632)	2,737,261	—
Expenses:				
Support for University activities	30,011,791	—	—	30,011,791
General and administrative expenses	2,707,271	—	—	2,707,271
Fund-raising expenses	1,431,811	—	—	1,431,811
	<u>34,150,873</u>	<u>—</u>	<u>—</u>	<u>34,150,873</u>
Total expenses				
Change in net assets	(837,294)	10,438,028	12,928,981	22,529,715
Net assets, beginning of year	17,186,241	183,044,292	210,290,123	410,520,656
Net assets, end of year	\$ <u>16,348,947</u>	<u>193,482,320</u>	<u>223,219,104</u>	<u>433,050,371</u>

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
	<u>1,605,132</u>	<u>42,495,941</u>	<u>13,827,223</u>	<u>57,928,296</u>
Total revenues, gains and other support				
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
	<u>36,674,921</u>	<u>—</u>	<u>—</u>	<u>36,674,921</u>
Total expenses				
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><u>17,186,241</u></u>	<u><u>183,044,292</u></u>	<u><u>210,290,123</u></u>	<u><u>410,520,656</u></u>

See accompanying notes to financial statements.

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Change in net assets	\$ 22,529,715	21,253,375
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	174,951	189,126
Permanently restricted contributions and split interest agreements	(9,389,176)	(12,770,985)
Gifts in kind transferred to the University	95,602	—
Gifts in kind from donors	(260,000)	(876,700)
Net realized and unrealized (gains) losses on investments	11,843,072	(2,270,494)
Provision for uncollectible pledges	3,992,940	2,574,534
Changes in operating assets and liabilities:		
Other assets	27,438	173,853
Pledges receivable	(23,928,546)	(13,872,177)
Funds held for others	(686,058)	(885,081)
Beneficial interest in perpetual trust	21,826	8,438
Beneficial interest in remainder trust	(6,406,084)	—
Liabilities under remainder trusts	(688,703)	192,881
Other liabilities	2,173,052	1,238,761
Net cash used in operating activities	(499,971)	(5,044,469)
Cash flows from investing activities:		
Purchases of property and equipment	(35,899)	(62,345)
Purchase of investments	(188,908,991)	(186,935,730)
Proceeds from sales and maturities of investments	181,804,665	181,924,133
Net cash used in investing activities	(7,140,225)	(5,073,942)
Cash flows from financing activities:		
Permanently restricted contributions	9,389,176	12,770,985
Payments to beneficiaries under remainder trusts	(750,981)	(828,439)
Net cash provided by financing activities	8,638,195	11,942,546
Net increase in cash and cash equivalents	997,999	1,824,135
Cash and cash equivalents:		
Beginning of year	7,730,829	5,906,694
End of year	\$ 8,728,828	7,730,829

See accompanying notes to financial statements.

# THE UNIVERSITY OF MISSISSIPPI FOUNDATION

## Notes to Financial Statements

June 30, 2016 and 2015

### **(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 risk-free interest rates at the time of the pledge, which are applicable to the years in which the pledges

## THE UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2016 and 2015

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 \$3,993,000 and \$2,575,000 are included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, such fees totaled approximately \$1,706,000 and \$1,606,000, 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, 2016 and 2015, such gifts totaled approximately \$1,026,000 and \$3,032,000, 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, 2016 and 2015, 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, 2016 and 2015, there were no material uncertain tax positions.

## THE UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2016 and 2015

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

The carrying amounts at June 30, 2016 and 2015 for cash and cash equivalents, pledges receivable, beneficial interest in trusts, 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.

During the current year, the Foundation was named as the beneficiary of one externally managed charitable remainder trust. This trust was recorded and is carried at the present value of the estimated future cash receipts from the assets of the trust.

#### **(i) Recent Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2016. The Foundation did not receive such services during the year ended June 30, 2016.

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.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will affect how Not-for-Profit entities report net asset classes, expenses, investment return and liquidity in the financial statements. This ASU will be effective for fiscal years beginning after December 15, 2017 and early adoption is permitted.

#### **(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, 2016 through October 14, 2016, which was the date the financial statements were available to be issued.

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

**(3) Pledges Receivable**

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2016, pledges were scheduled to mature at various dates through 2037 (approximately \$9,957,000 is due in fiscal year 2017, \$29,812,000 is due in total during the period including fiscal year 2018 through fiscal year 2022, and \$28,109,000 is due thereafter). 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). A summary of pledges receivable as of June 30, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Temporarily restricted	\$ 57,215,469	32,918,752
Permanently restricted	10,661,872	14,228,737
	67,877,341	47,147,489
Allowances for uncollectible pledges	(5,247,427)	(7,603,938)
Present value discounts (ranging from 1.6% to 6.1%)	(11,086,981)	(7,936,224)
	\$ 51,542,933	31,607,327

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

**(4) Investments**

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 2,060,009	1,566,262
Corporate bonds	21,155,503	18,577,303
Certificates of deposit	518,015	510,855
Other fixed income securities	<u>46,994,089</u>	<u>50,631,349</u>
Total fixed income	<u>70,727,616</u>	<u>71,285,769</u>
Equities:		
Common stocks	9,146,996	10,028,888
Common stock funds:		
International	491,754	23,187,289
Global	51,150,576	44,265,203
Mutual funds	5,156,814	5,769,565
Index funds:		
Large cap	19,737,427	7,932,154
Mid cap	—	9,120,368
Small cap	—	24,966,656
REITs	<u>2,482,187</u>	<u>2,002,778</u>
Total equities	<u>88,165,754</u>	<u>127,272,901</u>
Hedge funds:		
Event driven	23,787,871	24,067,503
Relative value	16,149,670	15,308,421
Energy MLP	19,339,925	18,778,352
Natural resource private fund	9,969,758	11,360,356
High income	14,653,260	15,510,547
Other	<u>51,321,098</u>	<u>35,650,784</u>
Total hedge funds	<u>135,221,582</u>	<u>120,675,963</u>
Venture capital and private equity	<u>79,953,494</u>	<u>59,498,831</u>
Real estate and other investments:		
Real estate owned and other investments	4,655,693	4,600,673
Timber fund	12,495,924	12,231,787
Partnership interest	<u>750,000</u>	<u>750,000</u>
Total real estate	<u>17,901,617</u>	<u>17,582,460</u>
Other short-term investments	<u>4,713,828</u>	<u>5,714,252</u>
Total investments	<u>\$ 396,683,891</u>	<u>402,030,176</u>

## THE UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2016 and 2015

#### (5) Beneficial Interest in Trusts

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 \$1,045,000 and \$1,067,000 at June 30, 2016 and 2015, respectively.

In fiscal 2016, the Foundation was notified that it had been named as the beneficiary of an externally managed remainder trust with assets of \$11,000,000. This trust is recorded at the present value of the estimated future cash receipts from the assets of the trust. Upon the date of the gift, the Foundation recognized contribution revenue of \$6,300,000. The discount rate utilized for the present value calculation was 3.6%. At June 30, 2016, the Foundation's interest in this trust approximated \$6,406,000.

#### (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, 2016 and 2015, 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, 2016 and 2015

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	2,060,009	—	2,060,009
Corporate bonds	—	21,155,503	—	21,155,503
Certificates of deposit	—	518,015	—	518,015
Other fixed income securities	<u>38,639,893</u>	<u>8,354,196</u>	—	<u>46,994,089</u>
Total fixed income	<u>38,639,893</u>	<u>32,087,723</u>	—	<u>70,727,616</u>
Equities:				
Common stocks	9,146,996	—	—	9,146,996
Common stock funds:				
International	491,754	—	—	491,754
Global	51,150,576	—	—	51,150,576
Mutual funds	5,156,814	—	—	5,156,814
Index funds:				
Large cap	19,737,427	—	—	19,737,427
REITs	<u>2,482,187</u>	—	—	<u>2,482,187</u>
Total equities	<u>88,165,754</u>	—	—	<u>88,165,754</u>
Hedge funds:				
Event driven	—	23,787,871	—	23,787,871
Relative value	—	16,149,670	—	16,149,670
Energy MLP	—	19,339,925	—	19,339,925
Natural resource private fund	—	—	9,969,758	9,969,758
High income	—	—	14,653,260	14,653,260
Other	—	<u>18,152,162</u>	<u>33,168,936</u>	<u>51,321,098</u>
Total hedge funds	—	<u>77,429,628</u>	<u>57,791,954</u>	<u>135,221,582</u>
Venture capital and private equity	—	—	<u>79,953,494</u>	<u>79,953,494</u>
Real estate:				
Real estate owned	—	—	4,655,693	4,655,693
Timber fund	—	—	12,495,924	12,495,924
Partnership interest	—	—	750,000	750,000
Total real estate	—	—	<u>17,901,617</u>	<u>17,901,617</u>
Other short-term investments	<u>4,713,828</u>	—	—	<u>4,713,828</u>
Total investments	\$ <u>131,519,475</u>	<u>109,517,351</u>	<u>155,647,065</u>	<u>396,683,891</u>
Beneficial interest in trusts	\$ 1,789,587	5,661,282	—	7,450,869

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

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>	59,498,831	59,498,831
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	5,714,252	—	—	5,714,252
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	\$ 757,652	308,959	—	1,066,611

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015 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, 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	17,582,460	59,498,831	34,268,490
Net realized and unrealized gain (loss)	508,612	4,930,663	(3,079,848)
Acquisitions	260,000	20,354,624	26,722,308
Dispositions	<u>(449,455)</u>	<u>(4,830,624)</u>	<u>(118,996)</u>
Balance as of June 30, 2016	<u>\$ 17,901,617</u>	<u>79,953,494</u>	<u>57,791,954</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

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

represents a summary of the fair value, unfunded commitments, eligible redemption frequency and expected life of the respective investments as of June 30, 2016:

<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	\$ 23,787,871	—	Quarterly	60 days	Indefinite
Relative value	16,149,670	—	Quarterly	90-120 days	Indefinite
Energy MLP	19,339,925	—	Monthly	30 days	Indefinite
Other	18,152,162	—	Quarterly	60-120 days	Indefinite
	<u>\$ 77,429,628</u>				
Hedge funds (Level 3):					
Natural resource private fund	\$ 9,969,758	1,028,875	No redemption feature	None	10 years
High income	14,653,260	—	Quarterly	120 days	Indefinite
Other	33,168,936	—	No redemption feature	None	5 years
	<u>\$ 57,791,954</u>				
Venture capital and private equity	\$ 79,953,494	51,080,537	No redemption feature	None	7 to 12 years
Real estate:					
Timber fund	\$ 12,495,924	—	No redemption feature	None	10 years
Real estate	4,655,693	—	No redemption feature	None	Indefinite
Partnership interest	750,000	—	No redemption feature	None	Indefinite
	<u>\$ 17,901,617</u>				

**(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 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 UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

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 long-term monthly 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.

Changes in donor-restricted endowment net assets for the years ended June 30, 2016 and 2015 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, 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	(2,501)	97,714,197	208,338,466	306,050,162
Contributions and transfers to endowment	—	—	11,134,800	11,134,800
Appropriation for expenditures	—	(10,000,381)	—	(10,000,381)
Investment return:				
Investment income	—	661,387	—	661,387
Net appreciation (depreciation)	<u>(220,470)</u>	<u>(9,915,924)</u>	<u>11,006</u>	<u>(10,125,388)</u>
Donor-restricted endowment net assets (deficit), June 30, 2016	\$ <u><u>(222,971)</u></u>	<u><u>78,459,279</u></u>	<u><u>219,484,272</u></u>	<u><u>297,720,580</u></u>

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

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 \$223,000 and \$3,000 as of June 30, 2016, and June 30, 2015, respectively.

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, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Donor-restricted endowment net assets	\$ 219,484,272	208,338,466
Permanently restricted pledges receivable, net	9,078,939	9,012,693
Liabilities under remainder trusts	(5,574,469)	(7,265,250)
Cash value of life insurance	230,362	204,214
Permanently restricted net assets	\$ 223,219,104	210,290,123

**(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, 2016 and 2015 were \$864,000 and \$867,000, 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 \$5,404,000 and \$8,057,000 as of June 30, 2016 and 2015, 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 \$5,574,000 and \$7,265,000 as of June 30, 2016 and 2015, respectively. The discount rates used in these measurements range from 4.20% 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.

**THE UNIVERSITY OF MISSISSIPPI FOUNDATION**

Notes to Financial Statements

June 30, 2016 and 2015

**(10) Property and Equipment**

Property and equipment consist of the following at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Land	\$ 300,000	300,000
Building and equipment	2,892,275	2,860,720
Furniture and fixtures	1,584,141	1,700,882
Total	4,776,416	4,861,602
Accumulated depreciation	(2,233,623)	(2,083,108)
Property and equipment, net	\$ 2,542,793	2,778,494

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 \$5,733,000 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, 2016, the Foundation transferred \$104,000 of rugs with accumulated depreciation of \$8,398 previously shown in property and equipment to the University. As of June 30, 2016 and 2015, property and equipment includes approximately \$1,303,000 and \$1,407,000, respectively of rugs placed in service within several Foundation properties.

For fiscal 2016 and 2015, gifts in kind of property received totaled \$260,000 and \$877,000, respectively. Gifts in kind of property transferred to the University totaled \$95,602 for fiscal 2016 with no gifts in kind transferred for fiscal 2015.

**(12) Net Assets**

Permanently restricted net assets at June 30, 2016 and 2015 were restricted for the following purposes:

	<b>2016</b>	<b>2015</b>
Academic and program support	\$ 38,570,620	37,007,735
Scholarship support	98,807,643	93,164,265
Faculty support	71,986,540	66,401,886
Library support	13,854,301	13,716,237
Total	\$ 223,219,104	210,290,123

## THE UNIVERSITY OF MISSISSIPPI FOUNDATION

### Notes to Financial Statements

June 30, 2016 and 2015

The vast majority of temporarily restricted net assets at June 30, 2016 and 2015 were available for academic and program support.

#### **(13) Funds Held for Others**

The Foundation administered funds for others of approximately \$22,057,000 and \$23,360,000 at June 30, 2016 and 2015, 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 the current year, the Foundation altered its procedures with the Ole Miss Athletics Foundation whereby the Foundation no longer receives the cash gifts for processing unless the donor sends the gift directly to the Foundation. During fiscal years 2016 and 2015, the Foundation received approximately \$374,000 and \$552,000, respectively, for the University of Mississippi Alumni Association and \$1,042,000 and \$33,578,000, 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 2016 and 2015 included approximately \$652,000 and \$818,000, respectively, to the University of Mississippi Alumni Association and \$1,148,000 and \$35,232,000, 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 2016 and 2015, the Foundation received approximately \$94 and \$17, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$562,000 and \$621,000, respectively.

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

Included in other liabilities are \$51,000 and \$213,000 at June 30, 2016 and 2015, 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.