



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, 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 University of Mississippi Foundation as of June 30, 2017 and 2016, 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 13, 2017

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 2,412,726	8,728,828
Pledges receivable, net	68,728,048	51,542,933
Investments	448,378,454	396,683,891
Beneficial interest in trusts	9,615,629	7,450,869
Property and equipment, net	2,484,477	2,542,793
Other assets	1,179,691	1,290,526
Total assets	<u>\$ 532,799,025</u>	<u>468,239,840</u>
Liabilities and Net Assets		
Funds held for others	\$ 23,591,139	22,056,528
Liabilities under remainder trusts and gift annuities	4,044,954	5,574,469
Other liabilities	1,471,376	7,558,472
Total liabilities	<u>29,107,469</u>	<u>35,189,469</u>
Net assets:		
Unrestricted	18,099,691	16,348,947
Temporarily restricted	248,262,610	193,482,320
Permanently restricted	237,329,255	223,219,104
Total net assets	<u>503,691,556</u>	<u>433,050,371</u>
Total liabilities and net assets	<u>\$ 532,799,025</u>	<u>468,239,840</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ —	49,698,369	8,006,208	57,704,577
Dividend and interest income	1,588,665	5,094,077	—	6,682,742
Net unrealized and realized gains on investments	970,746	36,945,530	147,622	38,063,898
Change in value of split-interest agreements	—	47,509	1,572,214	1,619,723
Other income	1,909,728	1,858,818	629	3,769,175
	4,469,139	93,644,303	9,726,673	107,840,115
Net assets released from restrictions/ redesignated by donor	34,480,535	(38,864,013)	4,383,478	—
Expenses:				
Support for University activities	33,193,872	—	—	33,193,872
General and administrative expenses	3,090,136	—	—	3,090,136
Fund-raising expenses	914,922	—	—	914,922
	37,198,930	—	—	37,198,930
Change in net assets	1,750,744	54,780,290	14,110,151	70,641,185
Net assets, beginning of year	16,348,947	193,482,320	223,219,104	433,050,371
Net assets, end of year	\$ 18,099,691	248,262,610	237,329,255	503,691,556

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	<u>17,186,241</u>	<u>183,044,292</u>	<u>210,290,123</u>	<u>410,520,656</u>
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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 70,641,185	22,529,715
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	114,193	174,951
Permanently restricted contributions and split interest agreements	(9,541,094)	(9,389,176)
Gifts in kind transferred to the University	—	95,602
Gifts in kind from donors	—	(260,000)
Net realized and unrealized (gains) losses on investments	(38,063,898)	11,843,072
Provision for uncollectible pledges	(929,043)	3,992,940
Changes in operating assets and liabilities:		
Other assets	110,835	27,438
Pledges receivable	(16,256,072)	(23,928,546)
Funds held for others	(1,221,071)	(686,058)
Beneficial interest in perpetual trust	(1,969,630)	21,826
Beneficial interest in remainder trust	(47,509)	(6,406,084)
Liabilities under remainder trusts	(1,433,378)	(688,703)
Other liabilities	<u>(6,087,096)</u>	<u>2,173,052</u>
Net cash used in operating activities	<u>(4,682,578)</u>	<u>(499,971)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(55,877)	(35,899)
Purchase of investments	(158,694,930)	(188,908,991)
Proceeds from sales and maturities of investments	<u>148,265,498</u>	<u>181,804,665</u>
Net cash used in investing activities	<u>(10,485,309)</u>	<u>(7,140,225)</u>
Cash flows from financing activities:		
Permanently restricted contributions	9,541,094	9,389,176
Payments to beneficiaries under remainder trusts	<u>(689,309)</u>	<u>(750,981)</u>
Net cash provided by financing activities	<u>8,851,785</u>	<u>8,638,195</u>
Net increase (decrease) in cash and cash equivalents	(6,316,102)	997,999
Cash and cash equivalents:		
Beginning of year	<u>8,728,828</u>	<u>7,730,829</u>
End of year	<u>\$ 2,412,726</u>	<u>8,728,828</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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 many financial 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 to 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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 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 (or reversal) for uncollectible pledges of \$(929,000) and \$3,993,000 is included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, such fees totaled approximately \$1,630,000 and \$1,706,000, 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, 2017 and 2016, such gifts totaled approximately \$2,672,000 and \$1,026,000, 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, 2017 and 2016, 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 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, there were no material uncertain tax positions.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2017 and 2016 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 fiscal year 2016, 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, 2017. The Foundation did not receive such services during the years ended June 30, 2017 or 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, 2017 through October 13, 2017, which was the date the financial statements were available to be issued.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2017, pledges were scheduled to mature at various dates through 2041 (approximately \$13,476,000 is due in fiscal year 2018, \$39,367,000 is due in total during the period including fiscal year 2019 through fiscal year 2023, and \$31,453,000 is due thereafter). 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). A summary of pledges receivable as of June 30, 2017 and 2016 is as follows:

	2017	2016
Temporarily restricted	\$ 75,044,354	57,215,469
Permanently restricted	9,251,535	10,661,872
	84,295,889	67,877,341
Allowances for uncollectible pledges	(3,836,822)	(5,247,427)
Present value discounts (ranging from 1.6% to 6.1% for 2017 and 2016)	(11,731,019)	(11,086,981)
	\$ 68,728,048	51,542,933

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(4) Investments

The Foundation's investments, aggregated by investment strategy, with related liquidity information consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 2,014,708	2,060,009
Corporate bonds	20,916,453	21,155,503
Certificates of deposit	751,629	518,015
Other fixed income securities	<u>47,038,392</u>	<u>46,994,089</u>
Total fixed income	<u>70,721,182</u>	<u>70,727,616</u>
Equities:		
Common stocks	13,099,444	9,146,996
Common stock funds:		
International	659,295	491,754
Global	47,987,339	51,150,576
Mutual funds	5,941,927	5,156,814
Index funds:		
Large cap	3,832,035	19,737,427
REITs	<u>2,435,430</u>	<u>2,482,187</u>
Total equities	<u>73,955,470</u>	<u>88,165,754</u>
Hedge funds:		
Event driven	26,294,105	23,787,871
Relative value	17,138,140	16,149,670
Energy MLP	20,040,368	19,339,925
Natural resource private fund	10,551,011	9,969,758
High income	16,149,139	14,653,260
Directional	67,547,161	33,765,245
Other	<u>12,329,951</u>	<u>17,555,853</u>
Total hedge funds	<u>170,049,875</u>	<u>135,221,582</u>
Venture capital and private equity	<u>111,120,721</u>	<u>79,953,494</u>
Real estate and other investments:		
Real estate owned and other investments	4,359,468	4,655,693
Timber fund	11,834,657	12,495,924
Partnership interest	—	750,000
Total real estate	<u>16,194,125</u>	<u>17,901,617</u>
Other short-term investments	<u>6,337,081</u>	<u>4,713,828</u>
Total investments	<u>\$ 448,378,454</u>	<u>396,683,891</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2017 and 2016

(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. During the current year, the Foundation received an additional interest for this trust as a result of the death of the primary beneficiary. The Foundation's interest equated to \$2,001,000 based on the fair value of the assets. 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 \$3,200,000 and \$1,045,000 at June 30, 2017 and 2016, 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%. The Foundation's interest in this trust approximated \$6,450,000 and \$6,400,000 at June 30, 2017 and 2016, respectively.

(6) Fair Value Measurement

ASC Topic 820, *Fair Value Measurement*, 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, 2017 and 2016, 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, 2017 and 2016

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	2,014,708	—	2,014,708
Corporate bonds	—	20,916,453	—	20,916,453
Certificates of deposit	—	751,629	—	751,629
Other fixed income securities	41,848,231	5,190,161	—	47,038,392
Total fixed income	<u>41,848,231</u>	<u>28,872,951</u>	<u>—</u>	<u>70,721,182</u>
Equities:				
Common stocks	13,099,444	—	—	13,099,444
Common stock funds:				
International	659,295	—	—	659,295
Global	47,987,339	—	—	47,987,339
Mutual funds	5,941,927	—	—	5,941,927
Index funds:				
Large cap	3,832,035	—	—	3,832,035
REITs	2,435,430	—	—	2,435,430
Total equities	<u>73,955,470</u>	<u>—</u>	<u>—</u>	<u>73,955,470</u>
Hedge funds:				
Event driven	—	26,294,105	—	26,294,105
Relative value	—	17,138,140	—	17,138,140
Energy MLP	—	20,040,368	—	20,040,368
Natural resource private fund	—	—	10,551,011	10,551,011
High income	—	16,149,139	—	16,149,139
Directional	—	49,267,318	18,279,843	67,547,161
Other	—	113,420	12,216,531	12,329,951
Total hedge funds	<u>—</u>	<u>129,002,490</u>	<u>41,047,385</u>	<u>170,049,875</u>
Venture capital and private equity	<u>—</u>	<u>—</u>	<u>111,120,721</u>	<u>111,120,721</u>
Real estate:				
Real estate owned	—	—	4,359,468	4,359,468
Timber fund	—	—	11,834,657	11,834,657
Partnership interest	—	—	—	—
Total real estate	<u>—</u>	<u>—</u>	<u>16,194,125</u>	<u>16,194,125</u>
Other short-term investments	6,337,081	—	—	6,337,081
Total investments	\$ <u>122,140,782</u>	<u>157,875,441</u>	<u>168,362,231</u>	<u>448,378,454</u>
Beneficial interest in trusts	\$ 2,774,752	6,840,877	—	9,615,629

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June 30, 2017 and 2016

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
Directional	—	18,059,757	15,705,488	33,765,245
Other	—	<u>92,405</u>	<u>17,463,448</u>	<u>17,555,853</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	—	—	<u>750,000</u>	<u>750,000</u>
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

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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, 2017 and 2016 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, 2015	\$ 17,582,460	59,498,831	34,268,490
Net realized and unrealized gain (loss)	508,612	6,210,788	(2,804,741)
Acquisitions	260,000	20,354,624	26,722,308
Dispositions	<u>(449,455)</u>	<u>(6,110,749)</u>	<u>(394,103)</u>
Balance as of June 30, 2016	17,901,617	79,953,494	57,791,954
Net realized and unrealized gain (loss)	(376,864)	11,288,905	7,280,115
Acquisitions	—	29,767,573	541,364
Dispositions	(1,330,628)	(9,889,251)	(8,416,909)
Transfer to Level 2	<u>—</u>	<u>—</u>	<u>(16,149,139)</u>
Balance as of June 30, 2017	<u>\$ 16,194,125</u>	<u>111,120,721</u>	<u>41,047,385</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. As of June 30, 2017, the Foundation transferred approximately \$16,100,000 of a high income hedge fund from level 3 to level 2. This transfer was a result of the expiration of the lock up period on the investment. 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

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represents a summary of the fair value, unfunded commitments, eligible redemption frequency and expected life of the respective investments as of June 30, 2017:

<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	\$ 26,294,105	—	Quarterly	60 days	Indefinite
Relative value	17,138,140	—	Quarterly	90-120 days	Indefinite
Energy MLP	20,040,368	—	Monthly	30 days	Indefinite
High income	16,149,139	—	Quarterly	120 days	Indefinite
Directional	49,267,318	—	Quarterly	60-120 days	Indefinite
Other	<u>113,420</u>	—	Quarterly	60-120 days	Indefinite
	<u>\$ 129,002,490</u>				
Hedge funds (Level 3):					
Natural resource private fund	\$ 10,551,011	446,838	No redemption feature	None	10 years
Directional	18,279,843	—	No redemption feature	None	5 years
Other	<u>12,216,531</u>	—	No redemption feature	None	5 years
	<u>\$ 41,047,385</u>				
Venture capital and private equity	\$ 111,120,721	77,327,332	No redemption feature	None	7 to 12 years
Real estate:					
Timber fund	\$ 11,834,657	—	No redemption feature	None	10 years
Real estate	4,359,468	—	No redemption feature	None	Indefinite
Partnership interest	<u>—</u>	—	No redemption feature	None	Indefinite
	<u>\$ 16,194,125</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

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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 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, 2017 and 2016 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, 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	(222,971)	78,459,279	219,484,272	297,720,580
Contributions and transfers to endowment	—	—	13,816,581	13,816,581
Appropriation for expenditures	—	(10,652,154)	—	(10,652,154)
Investment return:				
Investment income	—	8,645,067	—	8,645,067
Net appreciation (depreciation)	<u>222,297</u>	<u>28,548,129</u>	<u>147,622</u>	<u>28,918,048</u>
Donor-restricted endowment net assets (deficit), June 30, 2017	\$ <u><u>(674)</u></u>	<u><u>105,000,321</u></u>	<u><u>233,448,475</u></u>	<u><u>338,448,122</u></u>

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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 \$700 and \$223,000 as of June 30, 2017 and June 30, 2016, 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, 2017 and 2016:

	2017	2016
Donor-restricted endowment net assets	\$ 233,448,475	219,484,272
Permanently restricted pledges receivable, net	7,699,889	9,078,939
Liabilities under remainder trusts	(4,044,954)	(5,574,469)
Cash value of life insurance	225,845	230,362
Permanently restricted net assets	\$ 237,329,255	223,219,104

(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, 2017 and 2016 were \$937,000 and \$864,000, 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 \$5,274,000 and \$5,404,000 as of June 30, 2017 and 2016, 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 \$4,045,000 and \$5,574,000 as of June 30, 2017 and 2016, 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.

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(10) Property and Equipment

Property and equipment consist of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 300,000	300,000
Building and equipment	2,946,266	2,892,275
Furniture and fixtures	1,584,141	1,584,141
Total	4,830,407	4,776,416
Accumulated depreciation	(2,345,930)	(2,233,623)
Property and equipment, net	\$ 2,484,477	2,542,793

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 \$8,400 previously shown in property and equipment to the University. As of June 30, 2017 and 2016, property and equipment includes approximately \$1,303,000, respectively of rugs placed in service within several Foundation properties.

For fiscal 2017, there were no gifts in kind of property received nor any gifts in kind property transferred to the University. For fiscal 2016, gifts in kind of property received totaled \$260,000 with \$96,000 of gifts in kind transferred to the University.

(12) Net Assets

Permanently restricted net assets at June 30, 2017 and 2016 were restricted for the following purposes:

	2017	2016
Academic and program support	\$ 42,715,492	38,570,620
Scholarship support	112,213,855	98,807,643
Faculty support	68,511,529	71,986,540
Library support	13,888,379	13,854,301
Total	\$ 237,329,255	223,219,104

The vast majority of temporarily restricted net assets at June 30, 2017 and 2016 were available for academic and program support.

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(13) Funds Held for Others

The Foundation administered funds for others of approximately \$23,591,000 and \$22,057,000 at June 30, 2017 and 2016, 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 2016, 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 2017 and 2016, the Foundation received approximately \$332,000 and \$374,000, respectively, for the University of Mississippi Alumni Association and \$885,000 and \$1,042,000, 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 2017 and 2016 included approximately \$504,000 and \$652,000, respectively, to the University of Mississippi Alumni Association and \$1,220,000 and \$1,148,000, 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 2017 and 2016, the Foundation received approximately \$200 and \$100, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$989,000 and \$562,000, respectively.

(14) Mississippi Common Fund Trust

Included in other liabilities are \$68,000 and \$51,000 at June 30, 2017 and 2016, 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.