



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 23, 2018

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	\$ 3,866,290	2,412,726
Pledges receivable, net	69,532,717	68,728,048
Investments	489,931,616	448,378,454
Beneficial interest in trusts	9,867,261	9,615,629
Property and equipment, net	2,324,924	2,484,477
Other assets	<u>1,844,070</u>	<u>1,179,691</u>
Total assets	<u>\$ 577,366,878</u>	<u>532,799,025</u>
Liabilities and Net Assets		
Funds held for others	\$ 24,387,393	23,591,139
Liabilities under remainder trusts and gift annuities	4,600,059	4,044,954
Other liabilities	<u>2,500,182</u>	<u>1,471,376</u>
Total liabilities	<u>31,487,634</u>	<u>29,107,469</u>
Net assets:		
Unrestricted	17,065,336	18,099,691
Temporarily restricted	280,148,014	248,262,610
Permanently restricted	<u>248,665,894</u>	<u>237,329,255</u>
Total net assets	<u>545,879,244</u>	<u>503,691,556</u>
Total liabilities and net assets	<u>\$ 577,366,878</u>	<u>532,799,025</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions, gifts and bequests	\$ —	34,662,025	11,009,858	45,671,883
Dividend and interest income	1,574,566	7,628,290	—	9,202,856
Net unrealized and realized gains (losses) on investments	(189,818)	26,926,646	78,974	26,815,802
Change in value of split-interest agreements	—	214,206	(301,002)	(86,796)
Other income	791,950	1,922,316	103,145	2,817,411
	<u>2,176,698</u>	<u>71,353,483</u>	<u>10,890,975</u>	<u>84,421,156</u>
Total revenues, gains and other support				
Net assets released from restrictions/ redesignated by donor	39,022,415	(39,468,079)	445,664	—
Expenses:				
Support for University activities	37,821,554	—	—	37,821,554
General and administrative expenses	3,011,982	—	—	3,011,982
Fund-raising expenses	1,399,932	—	—	1,399,932
	<u>42,233,468</u>	<u>—</u>	<u>—</u>	<u>42,233,468</u>
Total expenses				
Change in net assets	(1,034,355)	31,885,404	11,336,639	42,187,688
Net assets, beginning of year	18,099,691	248,262,610	237,329,255	503,691,556
Net assets, end of year	\$ <u>17,065,336</u>	<u>280,148,014</u>	<u>248,665,894</u>	<u>545,879,244</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>1,909,728</u>	<u>1,858,818</u>	<u>629</u>	<u>3,769,175</u>
Total revenues, gains and other support	<u>4,469,139</u>	<u>93,644,303</u>	<u>9,726,673</u>	<u>107,840,115</u>
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	<u>914,922</u>	<u>—</u>	<u>—</u>	<u>914,922</u>
Total expenses	<u>37,198,930</u>	<u>—</u>	<u>—</u>	<u>37,198,930</u>
Change in net assets	1,750,744	54,780,290	14,110,151	70,641,185
Net assets, beginning of year	<u>16,348,947</u>	<u>193,482,320</u>	<u>223,219,104</u>	<u>433,050,371</u>
Net assets, end of year	\$ <u><u>18,099,691</u></u>	<u><u>248,262,610</u></u>	<u><u>237,329,255</u></u>	<u><u>503,691,556</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 42,187,688	70,641,185
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	143,297	114,193
Permanently restricted contributions and split interest agreements	(11,335,343)	(9,541,094)
Gifts in kind transferred to the University	341,354	—
Net realized and unrealized (gains) losses on investments	(26,815,802)	(38,063,898)
Provision for uncollectible pledges	(467,248)	(929,043)
Changes in operating assets and liabilities:		
Other assets	(664,379)	110,835
Pledges receivable	(337,421)	(16,256,072)
Funds held for others	(1,425,384)	(1,221,071)
Beneficial interest in perpetual trust	41,549	(1,969,630)
Beneficial interest in remainder trust	(214,316)	(47,509)
Liabilities under remainder trusts	480,663	(1,433,378)
Other liabilities	1,028,806	(6,087,096)
Net cash provided by (used in) operating activities	<u>2,963,464</u>	<u>(4,682,578)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(325,097)	(55,877)
Purchase of investments	(109,787,198)	(158,694,930)
Proceeds from sales and maturities of investments	97,591,132	148,265,498
Net cash used in investing activities	<u>(12,521,163)</u>	<u>(10,485,309)</u>
Cash flows from financing activities:		
Permanently restricted contributions	11,335,343	9,541,094
Payments to beneficiaries under remainder trusts	(324,080)	(689,309)
Net cash provided by financing activities	<u>11,011,263</u>	<u>8,851,785</u>
Net increase (decrease) in cash and cash equivalents	1,453,564	(6,316,102)
Cash and cash equivalents:		
Beginning of year	2,412,726	8,728,828
End of year	<u>\$ 3,866,290</u>	<u>2,412,726</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(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.

(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, 2018 and 2017

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 reversal for uncollectible pledges of \$(467,000) and \$(929,000) is included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, such fees totaled approximately \$1,855,000 and \$1,630,000, 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, 2018 and 2017, such gifts totaled approximately \$6,771,000 and \$4,484,000, 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 includes pooled investment 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, 2018 and 2017, 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.

(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, 2018 and 2017, there were no material uncertain tax positions.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2018 and 2017 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.

(i) Recent Accounting Pronouncements

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 requirements 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 is effective for fiscal years beginning after December 15, 2016 and is adopted by the Foundation for the current fiscal year and retrospectively applied to all periods presented. (See note (6) Investments)

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statements of activities, as a separate statement or in the notes to the financial statements.
3. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

4. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e., to match the depreciation expense on the asset) rather than when placed in service.

The Foundation intends to adopt the new ASU guidance using the retrospective method as of July 1, 2018.

(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 all events or transactions that occurred after June 30, 2018, through October 23, 2018, the date the financial statements were available to be issued. Effective July 1, 2018, the Foundation's Board of Directors approved a 40 basis point development fee allocated to each endowment to be used to support current development operations across all Ole Miss campuses.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. At June 30, 2018, pledges were scheduled to mature at various dates through 2042 (approximately \$12,267,000 is due in fiscal year 2019, \$41,904,000 is due in total during the period including fiscal year 2020 through fiscal year 2024, and \$31,354,000 is due thereafter). 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). A summary of pledges receivable as of June 30, 2018 and 2017 is as follows:

	2018	2017
Temporarily restricted	\$ 76,274,342	75,044,354
Permanently restricted	9,250,815	9,251,535
	85,525,157	84,295,889
Allowances for uncollectible pledges	(2,881,202)	(3,836,822)
Present value discounts (rates ranging from 1.6% to 6.1%)	(13,111,238)	(11,731,019)
	\$ 69,532,717	68,728,048

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(4) Investments

The Foundation's investments, aggregated by investment strategy, consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 3,179,079	2,014,708
Corporate bonds	22,685,726	20,916,453
Certificates of deposit	512,021	751,629
Other fixed income securities	49,680,983	47,038,392
Total fixed income	<u>76,057,809</u>	<u>70,721,182</u>
Equities:		
Common stocks	27,678,093	13,099,444
Common stock funds:		
International	830,980	659,295
Global	37,584,218	47,987,340
Mutual funds	3,568,017	5,941,927
Index funds:		
Large cap	—	3,832,035
REITs	—	2,435,430
Total equities	<u>69,661,308</u>	<u>73,955,471</u>
Real estate owned	3,919,468	4,359,468
Other short-term investments	8,147,048	6,337,081
Pooled investment funds, at NAV:		
Diversifying strategies	12,769,458	—
Energy MLP	18,439,862	20,040,368
Event driven	13,411,692	26,294,105
Global equity	31,211,088	34,698,487
Global equity-long only	47,660,692	40,604,872
High income	16,615,018	16,149,138
Long/short equity fund	19,687,193	12,062,233
Natural resource private fund	9,359,706	10,551,011
Private credit	13,325,257	12,216,531
Relative value	17,876,172	17,138,140
Timber fund	11,129,821	11,834,657
Other	61,932	113,420
Venture capital and private equity	120,598,092	91,302,290
Total pooled investment funds, at NAV	<u>332,145,983</u>	<u>293,005,252</u>
Total investments	<u>\$ 489,931,616</u>	<u>448,378,454</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(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 fiscal 2017, 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 \$3,160,000 at June 30, 2018 and 2017, 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 \$6,668,000 and \$6,450,000 at June 30, 2018 and 2017, 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 Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the fair value hierarchy table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	3,179,079	—	3,179,079
Corporate bonds	—	22,685,726	—	22,685,726
Certificates of deposit	—	512,021	—	512,021
Other fixed income securities	<u>46,444,779</u>	<u>3,236,204</u>	—	<u>49,680,983</u>
Total fixed income	<u>46,444,779</u>	<u>29,613,030</u>	—	<u>76,057,809</u>
Equities:				
Common stocks	27,678,093	—	—	27,678,093
Common stock funds:				
International	830,980	—	—	830,980
Global	37,584,218	—	—	37,584,218
Mutual funds	<u>3,568,017</u>	—	—	<u>3,568,017</u>
Total equities	69,661,308	—	—	69,661,308
Real estate owned	—	—	3,919,468	3,919,468
Other short-term investments	<u>8,147,048</u>	—	—	<u>8,147,048</u>
	<u>\$ 124,253,135</u>	<u>29,613,030</u>	<u>3,919,468</u>	<u>157,785,633</u>
Pooled investment funds, at NAV				<u>332,145,983</u>
Total investments			\$	<u><u>489,931,616</u></u>
Beneficial interest in trusts	\$ 3,308,622	6,558,639	—	9,867,261

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

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	41,848,231	28,872,951	—	70,721,182
Equities:				
Common stocks	13,099,444	—	—	13,099,444
Common stock funds:				
International	659,295	—	—	659,295
Global	47,987,340	—	—	47,987,340
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	73,955,471	—	—	73,955,471
Real estate owned	—	—	4,359,468	4,359,468
Other short-term investments	6,337,081	—	—	6,337,081
	\$ 122,140,783	28,872,951	4,359,468	155,373,202
Pooled investment funds, at NAV				293,005,252
Total investments				\$ 448,378,454
Beneficial interest in trusts	\$ 2,774,752	6,840,877	—	9,615,629

See note 2(e), *Investments*, for information regarding the methods used to determine the fair value of the Foundation's investments. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

The following table includes a rollforward of the amounts for the years ended June 30, 2018 and 2017 for investments classified within Level 3:

	<u>Real estate</u>
Balance as of June 30, 2016	\$ 5,405,693
Net realized and unrealized loss	(526,932)
Acquisitions	—
Dispositions	<u>(519,293)</u>
Balance as of June 30, 2017	4,359,468
Net realized and unrealized loss	(47,881)
Acquisitions	—
Dispositions	<u>(392,119)</u>
Balance as of June 30, 2018	\$ <u><u>3,919,468</u></u>

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, 2018:

<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>
Pooled investment funds, at NAV:					
Diversifying strategies	\$ 12,769,458	—	Semiannually	60 days	Indefinite
Energy MLP	18,439,862	—	Quarterly	60 days	Indefinite
Event driven	13,411,692	—	Quarterly	60 days	Indefinite
Global equity	31,211,088	—	No redemption feature	None	Indefinite
Global equity-long only	47,660,692	—	No redemption feature	None	Indefinite
High income	16,615,018	—	Quarterly	120 days	Indefinite
Long/short equity fund	19,687,193	—	Quarterly	60 days	Indefinite
Natural resource private fund	9,359,706	—	No redemption feature	None	10 years
Private credit	13,325,257	—	No redemption feature	None	Indefinite
Relative value	17,876,172	—	Quarterly	65 days	Indefinite
Timber Fund	11,129,821	—	No redemption feature	None	12 years
Other	61,932	—	No redemption feature	None	Indefinite
Venture capital and private equity	<u>120,598,092</u>	62,696,199	No redemption feature	None	7 years to indefinite
	\$ <u><u>332,145,983</u></u>				
Real estate:					
Real estate owned	\$ <u>3,919,468</u>	—	No redemption feature	None	Indefinite
	\$ <u><u>3,919,468</u></u>				

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(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 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

Changes in donor-restricted endowment net assets for the years ended June 30, 2018 and 2017 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, 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	(674)	105,000,321	233,448,475	338,448,122
Contributions and transfers to endowment	—	—	11,898,387	11,898,387
Appropriation for expenditures	—	(14,787,203)	—	(14,787,203)
Investment return:				
Investment income	—	22,869,614	—	22,869,614
Net appreciation (depreciation)	<u>674</u>	<u>10,324,428</u>	<u>78,974</u>	<u>10,404,076</u>
Donor-restricted endowment net assets (deficit), June 30, 2018	\$ <u>—</u>	<u>123,407,160</u>	<u>245,425,836</u>	<u>368,832,996</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 no endowment funds with deficiencies as of June 30, 2018 and approximately \$700 as of June 30, 2017.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Donor-restricted endowment net assets	\$ 245,425,836	233,448,475
Permanently restricted pledges receivable, net	7,554,064	7,699,889
Liabilities under remainder trusts	(4,600,059)	(4,044,954)
Cash value of life insurance	<u>286,053</u>	<u>225,845</u>
Permanently restricted net assets	\$ <u>248,665,894</u>	<u>237,329,255</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017 were \$1,092,000 and \$937,000, 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 \$5,882,000 and \$5,274,000 as of June 30, 2018 and 2017, 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 \$4,600,059 and \$4,044,954 as of June 30, 2018 and 2017, 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.

(10) Property and Equipment

Property and equipment consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 300,000	300,000
Building and equipment	3,243,005	2,946,266
Furniture and fixtures	<u>1,164,546</u>	<u>1,584,141</u>
Total	4,707,551	4,830,407
Accumulated depreciation	<u>(2,382,627)</u>	<u>(2,345,930)</u>
Property and equipment, net	\$ <u><u>2,324,924</u></u>	<u><u>2,484,477</u></u>

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 \$5,837,000 of these rugs the Foundation has transferred to the University for use on campus with the remaining rugs held by the Foundation. During the current year, the Foundation transferred \$420,000 of rugs with accumulated depreciation of \$78,000 previously shown in property and equipment to the University. As of June 30, 2018 and 2017, property and equipment includes approximately \$883,000 and \$1,303,000, respectively of rugs placed in service within several Foundation properties.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2018 and 2017

For fiscal years 2018 and 2017, there were no gifts in kind of property received nor any gifts in kind property transferred to the University.

(12) Net Assets

Permanently restricted net assets at June 30, 2018 and 2017 were restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Academic and program support	\$ 50,170,337	42,715,492
Scholarship support	112,427,761	112,213,855
Faculty support	72,162,202	68,511,529
Library support	<u>13,905,594</u>	<u>13,888,379</u>
Total	<u>\$ 248,665,894</u>	<u>237,329,255</u>

The vast majority of temporarily restricted net assets at June 30, 2018 and 2017 were available for academic and program support.

(13) Funds Held for Others

The Foundation administered funds for others of approximately \$24,387,000 and \$23,591,000 at June 30, 2018 and 2017, 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 2018 and 2017, the Foundation received approximately \$524,000 and \$332,000, respectively, for the University of Mississippi Alumni Association and \$1,530,000 and \$885,000, 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 2018 and 2017 included approximately \$788,000 and \$504,000, respectively, to the University of Mississippi Alumni Association and \$1,535,000 and \$1,220,000, 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 2018 and 2017, the Foundation received approximately \$110 and \$200, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$1,345,000 and \$989,000, respectively.

(14) Mississippi Common Fund Trust

Included in other liabilities are \$145,000 and \$68,000 at June 30, 2018 and 2017, 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.