



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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.



Emphasis of Matter

As discussed in Note 2(i) to the financial statements, during the year ended June 30, 2019, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Memphis, Tennessee
October 18, 2019

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2019 and 2018

Assets	2019	2018
Cash and cash equivalents	\$ 7,472,205	3,866,290
Pledges receivable, net	66,606,002	69,532,717
Investments	524,068,630	489,931,616
Beneficial interest in trusts	10,273,201	9,867,261
Property and equipment, net	2,297,732	2,324,924
Other assets	1,575,992	1,844,070
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Total assets	\$ <u>612,293,762</u>	<u>577,366,878</u>
Liabilities and Net Assets		
Funds held for others	\$ 24,120,347	24,387,393
Liabilities under remainder trusts and gift annuities	4,413,780	4,600,059
Other liabilities	4,634,069	2,500,182
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Total liabilities	<u>33,168,196</u>	<u>31,487,634</u>
Net assets:		
Without donor restrictions	16,019,062	17,065,336
With donor restrictions	563,106,504	528,813,908
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Total net assets	<u>579,125,566</u>	<u>545,879,244</u>
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Total liabilities and net assets	\$ <u>612,293,762</u>	<u>577,366,878</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions, gifts and bequests	\$ —	47,543,446	47,543,446
Investment return, net	1,896,871	20,455,684	22,352,555
Change in value of split-interest agreements	—	372,151	372,151
Gift management fees	1,752,022	(1,752,022)	—
Development fees	1,382,583	(1,382,583)	—
Other income	943,455	2,534,412	3,477,867
	5,974,931	67,771,088	73,746,019
Net assets released from restrictions/ redesignated by donor:			
Appropriation from donor endowment	8,014,774	(8,014,774)	—
Satisfaction of program restrictions	25,463,718	(25,463,718)	—
Expenses:			
Support for University activities:			
Academic	4,851,265	—	4,851,265
Scholarship	8,095,031	—	8,095,031
Programmatic	17,953,195	—	17,953,195
University of Mississippi Medical Center	3,930,985	—	3,930,985
General and administrative expenses	3,877,421	—	3,877,421
Fund-raising expenses	1,791,800	—	1,791,800
	40,499,697	—	40,499,697
Change in net assets	(1,046,274)	34,292,596	33,246,322
Net assets, beginning of year	17,065,336	528,813,908	545,879,244
Net assets, end of year	\$ 16,019,062	563,106,504	579,125,566

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions, gifts and bequests	\$ —	45,671,883	45,671,883
Investment return, net	1,384,748	33,039,012	34,423,760
Change in value of split-interest agreements	—	(86,796)	(86,796)
Gift management fees	1,744,458	(1,744,458)	—
Other income	791,950	2,025,461	2,817,411
	<u>3,921,156</u>	<u>78,905,102</u>	<u>82,826,258</u>
Total revenues, gains, and other support			
Net assets released from restrictions/ redesignated by donor:			
Appropriation from donor endowment	9,382,068	(9,382,068)	—
Satisfaction of program restrictions	26,300,991	(26,300,991)	—
Expenses:			
Support for University activities:			
Academic	4,528,918	—	4,528,918
Scholarship	7,887,853	—	7,887,853
Programmatic	15,121,348	—	15,121,348
University of Mississippi Medical Center	8,743,422	—	8,743,422
General and administrative expenses	2,957,096	—	2,957,096
Fund-raising expenses	1,399,933	—	1,399,933
	<u>40,638,570</u>	<u>—</u>	<u>40,638,570</u>
Total expenses			
Change in net assets	(1,034,355)	43,222,043	42,187,688
Net assets, beginning of year	<u>18,099,691</u>	<u>485,591,865</u>	<u>503,691,556</u>
Net assets, end of year	<u>\$ 17,065,336</u>	<u>528,813,908</u>	<u>545,879,244</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 33,246,322	42,187,688
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	146,875	143,297
Contributions restricted for long-term purposes and split interest agreements	(11,461,225)	(11,335,343)
Gifts in kind transferred to the University	—	341,354
Net realized and unrealized (gains) losses on investments	(15,212,955)	(26,815,802)
Provision for uncollectible pledges	(343,649)	(467,248)
Changes in operating assets and liabilities:		
Other assets	268,078	(664,379)
Pledges receivable	3,270,364	(337,421)
Funds held for others	(1,346,572)	(1,425,384)
Beneficial interest in perpetual trust	99,195	41,549
Beneficial interest in remainder trust	(405,940)	(214,316)
Liabilities under remainder trusts	(65,408)	480,663
Other liabilities	<u>2,133,887</u>	<u>1,028,806</u>
Net cash provided by operating activities	<u>10,328,972</u>	<u>2,963,464</u>
Cash flows from investing activities:		
Purchases of property and equipment	(119,683)	(325,097)
Purchase of investments	(152,076,139)	(109,787,198)
Proceeds from sales and maturities of investments	<u>134,329,340</u>	<u>97,591,132</u>
Net cash used in investing activities	<u>(17,866,482)</u>	<u>(12,521,163)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes and split interest agreements	11,461,225	11,335,343
Payments to beneficiaries under remainder trusts	<u>(317,800)</u>	<u>(324,080)</u>
Net cash provided by financing activities	<u>11,143,425</u>	<u>11,011,263</u>
Net increase in cash and cash equivalents	3,605,915	1,453,564
Cash and cash equivalents:		
Beginning of year	<u>3,866,290</u>	<u>2,412,726</u>
End of year	<u>\$ 7,472,205</u>	<u>3,866,290</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(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

Net assets, revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified into the following two classes:

- **Net assets with donor restrictions** consist of contributions that have been restricted by the donor for specific purposes or are time restricted, including contributions that the donor stipulate the resources be maintained in perpetuity, but permit the Foundation to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.
- **Net assets without donor restrictions** represent funds that are available for support of the operations of the Foundation and that are not subject to donor stipulation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. The Foundation considers donor contributions to the various University schools and departments to be included in net assets with donor restrictions as those University units have authority over expenditures. Expenses are reported as decreases in net assets without donor restrictions. When a donor restriction expires or the stated purpose is accomplished, net assets are reclassified as applicable in the statements of activities as net assets released from restriction.

Board-designated net assets are net assets without donor restrictions that are used only for the specific purpose passed by Board resolution. Changes to designations require a subsequent Board resolution. The President/CEO and other staff of the Foundation may not change the purpose of any

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

Board-designated funds without the consent of the Board. Board-designated net assets are \$14,300,000 and \$15,300,000 as of June 30, 2019 and 2018, respectively. These net assets are designated for providing a general operating fund reserve and charitable gift annuity reserve.

(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 reversal for uncollectible pledges of \$(344,000) and \$(467,000) is included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2019 and 2018, 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 endowment funds held. Effective July 1, 2018, the Board approved a development fee of 0.4% to be utilized by the University's office of development to expand its staff and reach to increase the University's private support. For the fiscal years ended June 30, 2019 and 2018, such fees totaled approximately \$3,135,000 and \$1,744,000, respectively.

(d) Cash and Cash Equivalents and Liquidity

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, 2019 and 2018, such gifts totaled approximately \$5,160,000 and \$6,771,000, respectively.

As part of the Foundation's liquidity management, it invests cash in excess of daily requirements in short-term investments. There is an established board-designated fund where the governing board has the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

Cash and cash equivalents and other financial assets available within one year at June 30, 2019 and 2018 are as follows:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 7,472,205	3,866,290
Pledges receivable, net	66,606,002	69,532,717
Investments	524,068,630	489,931,616
Other assets	1,575,992	1,844,070
Total financial assets at year end	599,722,829	565,174,693
Less those unavailable for general expenditures within one year due to:		
Restricted by donor with purpose restrictions	(150,586,675)	(131,248,489)
Subject to appropriation and satisfaction of donor restrictions	(434,528,623)	(419,402,801)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 14,607,531	14,523,403

(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, 2019 and 2018, 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.

Open tax years are those that are open for exam by taxing authorities. Major jurisdictions for the Foundation include Federal and the State of Mississippi. As of June 30, 2019, open Federal and Mississippi tax years for the Foundation include tax years ended June 30, 2016, 2017, and 2018. The

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

Foundation has no examinations in progress. As of June 30, 2019 and 2018, there were no material uncertain tax positions.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2019 and 2018 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 net assets with donor restrictions.

(i) Recent Accounting Pronouncements

In 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The main provisions of this update include: presentation of two classes of net assets (reduced from three classes); reporting investment return net of external and direct internal investment expenses; qualitative information about management of liquidity; quantitative information about financial assets available within one year; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. Adoption of this update results in the following adjustments for the year ended June 30, 2018:

	2018
Net assets before adoption of ASU 2016-14:	
Unrestricted	\$ 17,065,336
Temporarily restricted	280,148,014
Permanently restricted	248,665,894
Total net assets before adoption of ASU 2016-14	\$ 545,879,244
Net assets after adoption of ASU 2016-14:	
With donor restrictions:	
Previous classification – temporarily restricted	\$ 280,148,014
Previous classification – permanently restricted	248,665,894
Total with donor restrictions	528,813,908
Without donor restrictions:	
Previous classification – unrestricted	17,065,336
Total without donor restrictions	17,065,336
Total net assets after adoption of ASU 2016-14	\$ 545,879,244

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(j) Subsequent Events

On July 11, 2019, pursuant to a court order, the Foundation transferred \$6.4 million from one donor's endowment fund to another 501(c)(3) organization.

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, 2019, through October 18, 2019, the date the financial statements were available to be issued.

(3) Pledges Receivable

The Foundation obtains pledges through fund-raising projects in support of various activities. All pledges are classified as net assets with donor restrictions. A summary of pledges receivable as of June 30, 2019 and 2018 is as follows:

	2019	2018
Unconditional promises expected to be collected in:		
One year	\$ 14,187,360	12,267,439
Two to five years	38,607,939	41,904,269
More than five years	28,179,628	31,353,449
	80,974,927	85,525,157
Allowances for uncollectible pledges	(2,481,848)	(2,881,202)
Present value discounts (rates ranging from 1.6% to 5.1%)	(11,887,077)	(13,111,238)
	\$ 66,606,002	69,532,717

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(4) Investments

The Foundation's investments, aggregated by investment strategy, consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 3,698,434	3,179,079
Corporate bonds	20,824,579	22,685,726
Certificates of deposit	522,625	512,021
Other fixed income securities	<u>30,707,071</u>	<u>49,680,983</u>
Total fixed income	<u>55,752,709</u>	<u>76,057,809</u>
Equities:		
Common stocks	28,626,727	27,678,093
Common stock funds:		
International	660,892	830,980
Global	—	37,584,218
Mutual funds	<u>3,515,956</u>	<u>3,568,017</u>
Total equities	<u>32,803,575</u>	<u>69,661,308</u>
Real estate owned	4,079,468	3,919,468
Other short-term investments	22,555,664	8,147,048
Pooled investment funds, at NAV:		
Diversifying strategies	14,679,611	12,769,458
Energy MLP	17,429,790	18,439,862
Event driven	15,271,477	13,411,692
Fixed income	27,426,730	—
Global equity	64,584,861	31,211,088
Global equity-long only	43,921,891	47,660,692
High income	13,057,247	16,615,018
Long/short equity fund	21,039,917	19,687,193
Natural resource private fund	7,956,131	9,359,706
Private credit	14,294,096	13,325,257
Relative value	15,014,109	17,876,172
Timber fund	10,888,182	11,129,821
Other	56,083	61,932
Venture capital and private equity	<u>143,257,089</u>	<u>120,598,092</u>
Total pooled investment funds, at NAV	<u>408,877,214</u>	<u>332,145,983</u>
Total investments	\$ <u>524,068,630</u>	<u>489,931,616</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(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 \$3,299,000 and \$3,200,000 at June 30, 2019 and 2018, 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 \$6,974,000 and \$6,668,000 at June 30, 2019 and 2018, 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, 2019 and 2018

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	3,698,434	—	3,698,434
Corporate bonds	—	20,824,579	—	20,824,579
Certificates of deposit	—	522,625	—	522,625
Other fixed income securities	<u>26,588,520</u>	<u>4,118,551</u>	—	<u>30,707,071</u>
Total fixed income	<u>26,588,520</u>	<u>29,164,189</u>	—	<u>55,752,709</u>
Equities:				
Common stocks	28,626,727	—	—	28,626,727
Common stock funds:				
International	660,892	—	—	660,892
Mutual funds	<u>3,515,956</u>	—	—	<u>3,515,956</u>
Total equities	32,803,575	—	—	32,803,575
Real estate owned	—	—	4,079,468	4,079,468
Other short-term investments	<u>22,555,664</u>	—	—	<u>22,555,664</u>
	<u>\$ 81,947,759</u>	<u>29,164,189</u>	<u>4,079,468</u>	115,191,416
Pooled investment funds, at NAV	—	—	—	<u>408,877,214</u>
Total investments				<u>524,068,630</u>
Beneficial interest in trusts	\$ 3,441,055	6,832,146	—	10,273,201

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

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>	157,785,633
Pooled investment funds, at NAV				<u>332,145,983</u>
Total investments				\$ <u>489,931,616</u>
Beneficial interest in trusts	\$ 3,308,622	6,558,639	—	9,867,261

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, 2019 and 2018

The following table includes a rollforward of the amounts for the years ended June 30, 2019 and 2018 for investments classified within Level 3:

	Real estate owned
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	3,919,468
Net realized and unrealized loss	—
Acquisitions	160,000
Dispositions	<u>—</u>
Balance as of June 30, 2019	\$ <u><u>4,079,468</u></u>

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, 2019:

<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	\$ 14,679,611	—	Semiannually	60 days	Indefinite
Energy MLP	17,429,790	—	Quarterly	60 days	Indefinite
Event driven	15,271,477	—	Quarterly	60 days	Indefinite
Fixed income	27,426,730	—	No redemption feature	None	Indefinite
Global equity	64,584,861	—	No redemption feature	None	Indefinite
Global equity-long only	43,921,891	—	No redemption feature	None	Indefinite
High income	13,057,247	—	Quarterly	120 days	Indefinite
Long/short equity fund	21,039,917	—	Quarterly	60 days	Indefinite
Natural resource private fund	7,956,131	—	No redemption feature	None	10 years
Private credit	14,294,096	—	No redemption feature	None	Indefinite
Relative value	15,014,109	—	Quarterly	65 days	Indefinite
Timber Fund	10,888,182	—	No redemption feature	None	12 years
Other	56,083	—	No redemption feature	None	Indefinite
Venture capital and private equity	<u>143,257,089</u>	45,221,903	No redemption feature	None	7 years to indefinite
	\$ <u><u>408,877,214</u></u>				
Real estate:					
Real estate owned	\$ <u><u>4,079,468</u></u>	—	No redemption feature	None	Indefinite
	\$ <u><u>4,079,468</u></u>				

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(7) Endowment Funds

The Foundation's endowment consists of approximately 1,500 donor-restricted funds established for a variety of purposes to benefit the University community. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors that function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 segregates within the net asset class with donor restrictions, the original gift amount and amounts required to be retained by donor separate from the portion subject to appropriation.

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, 2019 and 2018

Endowment net asset composition by type of fund for the years ended June 30, 2019 and 2018 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds:			
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor	\$ —	261,443,280	261,443,280
Portion subject to appropriation	—	125,641,224	125,641,224
Board-designated quasi endowment	<u>14,271,593</u>	<u>—</u>	<u>14,271,593</u>
Total endowment funds, June 30, 2019	\$ <u>14,271,593</u>	<u>387,084,504</u>	<u>401,356,097</u>

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds:			
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor	\$ —	248,665,894	248,665,894
Portion subject to appropriation	—	123,407,160	123,407,160
Board-designated quasi endowment	<u>15,283,457</u>	<u>—</u>	<u>15,283,457</u>
Total endowment funds, June 30, 2018	\$ <u>15,283,457</u>	<u>372,073,054</u>	<u>387,356,511</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 16,094,148	342,329,576	358,423,724
Contributions and transfers to endowment	—	11,257,665	11,257,665
Appropriation of expenditures	(1,214,616)	(11,126,526)	(12,341,142)
Investment return:			
Investment income	581,452	18,213,899	18,795,351
Net appreciation (depreciation)	<u>(177,527)</u>	<u>11,398,440</u>	<u>11,220,913</u>
Endowment net assets, June 30, 2018	15,283,457	372,073,054	387,356,511
Contributions and transfers to endowment	—	12,672,947	12,672,947
Appropriation of expenditures	(1,692,533)	(11,149,379)	(12,841,912)
Investment return:			
Investment income	928,004	11,913,031	12,841,035
Net appreciation (depreciation)	<u>(247,335)</u>	<u>1,574,851</u>	<u>1,327,516</u>
Endowment net assets, June 30, 2019	<u>\$ 14,271,593</u>	<u>387,084,504</u>	<u>401,356,097</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 total amount of the gifts made to the endowment by the donor. There were no deficiencies as June 30, 2019 or 2018.

(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, 2019 and 2018 were \$1,141,000 and \$1,092,000, 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 \$5,635,000 and \$5,882,000 as of June 30, 2019 and 2018, 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 \$4,414,000 and \$4,600,000 as of June 30, 2019 and 2018, 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, 2019 and 2018

(10) Property and Equipment

Property and equipment consist of the following at June 30, 2019 and 2018:

	2019	2018
Land	\$ 300,000	300,000
Building and equipment	3,350,676	3,243,005
Furniture and fixtures	1,164,546	1,164,546
Total	4,815,222	4,707,551
Accumulated depreciation	(2,517,490)	(2,382,627)
Property and equipment, net	\$ 2,297,732	2,324,924

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

For fiscal years 2019 and 2018, there were no gifts in kind of property received nor any gifts in kind property transferred to the University.

(12) Net Assets with donor restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 were restricted for the following purposes:

	2019	2018
Spendable:		
Academic and program support	\$ 178,032,801	158,352,067
Scholarship support	75,759,328	54,207,900
Faculty support	39,100,045	58,535,188
Library support	8,771,050	9,052,859
Total	301,663,224	280,148,014
Endowment:		
Academic and program support	\$ 54,083,486	50,170,337
Scholarship support	118,100,910	112,427,761
Faculty support	75,311,037	72,162,202
Library support	13,947,847	13,905,594
Total	261,443,280	248,665,894
Total net assets with donor restrictions	\$ 563,106,504	528,813,908

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(13) Funds Held for Others

The Foundation administered funds for others of approximately \$24,120,000 and \$24,387,000 at June 30, 2019 and 2018, 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 2019 and 2018, the Foundation received approximately \$340,000 and \$524,000, respectively, for the University of Mississippi Alumni Association and \$1,242,000 and \$1,530,000, 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 2019 and 2018 included approximately \$584,000 and \$788,000, respectively, to the University of Mississippi Alumni Association and \$1,234,000 and \$1,535,000, 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 2019 and 2018, the Foundation received approximately \$0 and \$110, respectively, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$1,180,000 and \$1,345,000, respectively.

(14) Mississippi Common Fund Trust

Included in other liabilities are \$1,708,000 and \$145,000 at June 30, 2019 and 2018, 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.

(15) Net Assets Released from Donor Restrictions

Net assets utilized in accordance with donor restrictions during the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Spendable:		
Academic and Program Support	\$ 23,234,287	23,302,761
Scholarship Support	7,136,038	8,887,416
Faculty Support	2,480,611	2,821,147
Library Support	627,556	671,735
Total net assets released from restrictions	\$ 33,478,492	35,683,059

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

(16) Functional Expenses

Expenses by function and natural classification for the years ended June 30, 2019 and 2018 are as follows:

	Programmatic activities				Supporting activities		Total expenses
	Academic	Scholarship	Programmatic	UMMC	General and administrative	Fundraising	
June 30, 2019:							
Faculty support	\$ 3,506,658	—	—	—	—	—	3,506,658
Student aid support	—	8,095,031	—	1,136,014	—	—	9,231,045
Facilities	—	—	629,225	382,711	353,642	—	1,365,578
University support	1,344,607	—	9,951,040	—	—	205,994	11,501,641
Salaries	—	—	964,699	407,993	2,975,738	982,811	5,331,241
Library support	—	—	694,804	—	—	—	694,804
Donor relations	—	—	474,995	1,526,605	73,910	599,504	2,675,014
Accounting, legal and IT	—	—	—	—	282,844	—	282,844
Office expense and other	—	—	5,238,432	477,662	191,287	3,491	5,910,872
	<u>\$ 4,851,265</u>	<u>8,095,031</u>	<u>17,953,195</u>	<u>3,930,985</u>	<u>3,877,421</u>	<u>1,791,800</u>	<u>40,499,697</u>

	Programmatic activities				Supporting activities		Total expenses
	Academic	Scholarship	Programmatic	UMMC	General and administrative	Fundraising	
June 30, 2018:							
Faculty support	\$ 3,366,929	—	—	—	—	—	3,366,929
Student aid support	—	7,887,853	—	1,130,983	—	—	9,018,836
Facilities	—	—	2,303,993	640,834	328,582	—	3,273,409
University support	1,161,989	—	9,577,936	4,791,217	—	189,505	15,720,647
Salaries	—	—	1,192,919	166,607	1,996,554	426,402	3,782,482
Library support	—	—	689,502	—	—	—	689,502
Donor relations	—	—	432,267	1,262,661	58,147	773,228	2,526,303
Accounting, legal and IT	—	—	—	—	247,374	—	247,374
Office expense and other	—	—	924,731	751,120	326,439	10,798	2,013,088
	<u>\$ 4,528,918</u>	<u>7,887,853</u>	<u>15,121,348</u>	<u>8,743,422</u>	<u>2,957,096</u>	<u>1,399,933</u>	<u>40,638,570</u>