



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, 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, 2020

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents	\$ 12,974,805	7,472,205
Pledges receivable, net	80,841,525	66,606,002
Investments	496,354,507	524,068,630
Beneficial interest in trusts	10,229,426	10,273,201
Property and equipment, net	2,091,723	2,297,732
Other assets	<u>1,322,329</u>	<u>1,575,992</u>
Total assets	\$ <u><u>603,814,315</u></u>	<u><u>612,293,762</u></u>
Liabilities and Net Assets		
Funds held for others	\$ 23,079,151	24,120,347
Liabilities under remainder trusts and gift annuities	3,223,775	4,413,780
Other liabilities	<u>2,932,785</u>	<u>4,634,069</u>
Total liabilities	<u>29,235,711</u>	<u>33,168,196</u>
Net assets:		
Without donor restrictions	15,782,334	16,019,062
With donor restrictions	<u>558,796,270</u>	<u>563,106,504</u>
Total net assets	<u>574,578,604</u>	<u>579,125,566</u>
Total liabilities and net assets	\$ <u><u>603,814,315</u></u>	<u><u>612,293,762</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Contributions, gifts and bequests	\$ —	58,663,178	58,663,178
Investment return, net	1,530,275	(26,016,208)	(24,485,933)
Change in value of split-interest agreements	—	631,182	631,182
Gift management fees	1,819,436	(1,819,436)	—
Development fees	1,450,096	(1,450,096)	—
Other income	953,216	3,394,304	4,347,520
	5,753,023	33,402,924	39,155,947
Net assets released from restrictions/ redesignated by donor:			
Appropriation from donor endowment	8,747,683	(8,747,683)	—
Satisfaction of program restrictions	28,965,475	(28,965,475)	—
Expenses:			
Support for University activities:			
Academic	5,183,557	—	5,183,557
Scholarship	9,336,811	—	9,336,811
Programmatic	19,086,224	—	19,086,224
University of Mississippi Medical Center	4,998,169	—	4,998,169
General and administrative expenses	2,914,710	—	2,914,710
Fund-raising expenses	2,183,438	—	2,183,438
	43,702,909	—	43,702,909
Change in net assets	(236,728)	(4,310,234)	(4,546,962)
Net assets, beginning of year	16,019,062	563,106,504	579,125,566
Net assets, end of year	\$ 15,782,334	558,796,270	574,578,604

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

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (4,546,962)	33,246,322
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	146,098	146,875
Contributions restricted for long-term purposes and split interest agreements	(8,447,817)	(11,461,225)
Gifts in kind transferred to the University	165,733	—
Net realized and unrealized (gains) losses on investments	33,767,311	(15,212,955)
Net loss on disposal of property and equipment	14,567	—
Provision for uncollectible pledges	590,675	(343,649)
Changes in operating assets and liabilities:		
Other assets	253,663	268,078
Pledges receivable	(14,826,198)	3,270,364
Funds held for others	689,599	(1,346,572)
Beneficial interest in perpetual trust	(8,625)	99,195
Beneficial interest in remainder trust	43,775	(405,940)
Liabilities under remainder trusts	(605,655)	(65,408)
Other liabilities	<u>(1,701,284)</u>	<u>2,133,887</u>
Net cash provided by operating activities	<u>5,534,880</u>	<u>10,328,972</u>
Cash flows from investing activities:		
Purchases of property and equipment	(120,389)	(119,683)
Purchase of investments	(106,820,091)	(152,076,139)
Proceeds from sales and maturities of investments	<u>98,729,569</u>	<u>134,329,340</u>
Net cash used in investing activities	<u>(8,210,911)</u>	<u>(17,866,482)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes and split interest agreements	8,447,817	11,461,225
Payments to beneficiaries under remainder trusts	<u>(269,186)</u>	<u>(317,800)</u>
Net cash provided by financing activities	<u>8,178,631</u>	<u>11,143,425</u>
Net increase in cash and cash equivalents	5,502,600	3,605,915
Cash and cash equivalents:		
Beginning of year	<u>7,472,205</u>	<u>3,866,290</u>
End of year	<u>\$ 12,974,805</u>	<u>7,472,205</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(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 where donors 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

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 Board-designated funds without the consent of the Board. Board-designated net assets are \$14,300,000 as of June 30, 2020 and 2019, 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 provision (or reversal) for uncollectible pledges of \$591,000 and \$(344,000) is included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, such fees totaled approximately \$3,270,000 and \$3,135,000, 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, 2020 and 2019, such gifts totaled approximately \$6,993,000 and \$5,160,000, 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, 2020 and 2019

Cash and cash equivalents and other financial assets available within one year at June 30, 2020 and 2019 are as follows:

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	\$ 12,974,805	7,472,205
Pledges receivable, net	80,841,525	66,606,002
Investments	496,354,507	524,068,630
Other assets	1,322,329	1,575,992
Total financial assets at year end	591,493,166	599,722,829
Less those unavailable for general expenditures within one year due to:		
Restricted by donor with purpose restrictions	(185,140,950)	(150,586,675)
Subject to appropriation and satisfaction of donor restrictions	(392,383,757)	(434,528,623)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 13,968,459	14,607,531

(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, 2020 and 2019, 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.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020, open Federal and Mississippi tax years for the Foundation include tax years ended June 30, 2016, 2017, and 2018. The Foundation has no examinations in progress. As of June 30, 2020 and 2019, there were no material uncertain tax positions.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2020 and 2019 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 2020, the Foundation adopted Accounting Standards Update (ASU) No. 2018-08 – Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how to (1) evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance such as ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and (2) determining whether a contribution is conditional, evidenced by a donor-imposed stipulation as a barrier that must be overcome before the recipient is entitled to the assets transferred or promised, and that gives the donor a right of return of the assets if the barrier is not overcome. There were no material changes to the financial statements as a result of implementing this standard.

(j) Emphasis of a Matter

The COVID-19 pandemic that was declared by the World Health Organization on March 11, 2020 significantly impacted the operations of the University of Mississippi as on-campus housing was closed and in-person classes were cancelled and moved online. The full impact of the COVID-19 outbreak continues and it is unknown what the complete financial effect will be on the Foundation.

(k) 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, 2020, through October 23, 2020, the date the financial statements were available to be issued.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(I) Accounting Standards Issued but Not Currently Effective

After year end, the FASB issued ASU No. 2020-07 – Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires contributed nonfinancial assets to be included as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Additionally, the disclosures are enhanced to disaggregate the amount of contributed nonfinancial assets into categories by type. Within each category, disclosures should include qualitative information about whether the assets were either monetized or utilized during the report period; the Not-for-Profit’s policy for monetizing versus utilizing; a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; a description of the valuation techniques and inputs used to arrive at a fair value measure; and the principal market used to arrive at a fair value measure. The Foundation intends to adopt the new ASU guidance using the retrospective method as of July 1, 2021. The qualitative effects on the Foundation’s future financial statements of these changes and related retrospective adjustments have not yet been determined.

(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, 2020 and 2019 is as follows:

	2020	2019
Unconditional promises expected to be collected in:		
One year	\$ 16,221,488	14,187,360
Two to five years	38,510,914	38,607,939
More than five years	41,795,150	28,179,628
	96,527,552	80,974,927
Allowances for uncollectible pledges	(2,681,798)	(2,481,848)
Present value discounts (rates ranging from 0.73% to 4.9%)	(13,004,229)	(11,887,077)
	\$ 80,841,525	66,606,002

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(4) Investments

The Foundation's investments, aggregated by investment strategy, consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 3,446,113	3,698,434
Corporate bonds	25,136,691	20,824,579
Certificates of deposit	533,464	522,625
Other fixed income securities	<u>28,451,332</u>	<u>30,707,071</u>
Total fixed income	<u>57,567,600</u>	<u>55,752,709</u>
Equities:		
Common stocks	28,407,477	28,626,727
International common stock funds	537,216	660,892
Mutual funds	<u>3,421,496</u>	<u>3,515,956</u>
Total equities	<u>32,366,189</u>	<u>32,803,575</u>
Real estate owned	<u>3,539,381</u>	<u>4,079,468</u>
Other short-term investments	<u>64,144,129</u>	<u>22,555,664</u>
Pooled investment funds, at NAV:		
Diversifying strategies	12,652,723	14,679,611
Energy MLP	9,626,887	17,429,790
Event driven	13,311,272	15,271,477
Fixed income	23,356,789	27,426,730
Global equity	43,027,594	64,584,861
Global equity-long only	46,693,043	43,921,891
High income	604,880	13,057,247
Long/short equity fund	23,197,127	21,039,917
Natural resource private fund	7,104,325	7,956,131
Private credit	7,085,959	14,294,096
Relative value	14,834,839	15,014,109
Timber fund	10,078,244	10,888,182
Other	42,326	56,083
Venture capital and private equity	<u>127,121,200</u>	<u>143,257,089</u>
Total pooled investment funds, at NAV	<u>338,737,208</u>	<u>408,877,214</u>
Total investments	<u>\$ 496,354,507</u>	<u>524,068,630</u>

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(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 \$3,229,000 and \$3,299,000 at June 30, 2020 and 2019, 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 \$7,000,000 and \$6,974,000 at June 30, 2020 and 2019, 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, 2020 and 2019

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	3,446,113	—	3,446,113
Corporate bonds	—	25,136,691	—	25,136,691
Certificates of deposit	—	533,464	—	533,464
Other fixed income securities	<u>23,936,722</u>	<u>4,514,610</u>	—	<u>28,451,332</u>
Total fixed income	<u>23,936,722</u>	<u>33,630,878</u>	—	<u>57,567,600</u>
Equities:				
Common stocks	28,407,477	—	—	28,407,477
International common stock funds	537,216	—	—	537,216
Mutual funds	<u>3,421,496</u>	—	—	<u>3,421,496</u>
Total equities	<u>32,366,189</u>	—	—	<u>32,366,189</u>
Real estate owned	—	—	<u>3,539,381</u>	<u>3,539,381</u>
Other short-term investments	<u>64,144,129</u>	—	—	<u>64,144,129</u>
	<u>\$ 120,447,040</u>	<u>33,630,878</u>	<u>3,539,381</u>	157,617,299
Pooled investment funds, at NAV				<u>338,737,208</u>
Total investments				<u>\$ 496,354,507</u>
Beneficial interest in trusts	<u>\$ 3,936,261</u>	<u>6,293,165</u>	—	<u>\$ 10,229,426</u>

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June 30, 2020 and 2019

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
International common stock funds	660,892	—	—	660,892
Mutual funds	<u>3,515,956</u>	—	—	<u>3,515,956</u>
Total equities	<u>32,803,575</u>	—	—	<u>32,803,575</u>
Real estate owned	—	—	<u>4,079,468</u>	<u>4,079,468</u>
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	<u>\$ 3,441,055</u>	<u>6,832,146</u>	—	<u>\$ 10,273,201</u>

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.

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The following table includes a rollforward of the amounts for the years ended June 30, 2020 and 2019 for investments classified within Level 3:

	Real estate owned
Balance as of June 30, 2018	\$ 3,919,468
Net realized and unrealized loss	—
Acquisitions	160,000
Dispositions	—
Balance as of June 30, 2019	4,079,468
Net realized and unrealized loss	(540,087)
Acquisitions	—
Dispositions	—
Balance as of June 30, 2020	\$ <u>3,539,381</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, 2020:

<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	\$ 12,652,723	—	Semiannually	60 days	Indefinite
Energy MLP	9,626,887	—	Quarterly	60 days	Indefinite
Event driven	13,311,272	—	Quarterly	60 days	Indefinite
Fixed income	23,356,789	—	Daily	5 days	Indefinite
Global equity	43,027,594	—	No redemption feature	None	Indefinite
Global equity-long only	46,693,043	—	Quarterly	90 days	Indefinite
High income	604,880	—	Quarterly	120 days	Indefinite
Long/short equity fund	23,197,127	—	Quarterly	60 days	Indefinite
Natural resource private fund	7,104,325	13,801	No redemption feature	None	10 years
Private credit	7,085,959	—	No redemption feature	None	Indefinite
Relative value	14,834,839	—	Quarterly	65 days	Indefinite
Timber Fund	10,078,244	—	No redemption feature	None	12 years
Other	42,327	—	No redemption feature	None	Indefinite
Venture capital and private equity	127,121,199	52,433,203	No redemption feature	None	7 years to indefinite
	<u>\$ 338,737,208</u>				
Real estate:					
Real estate owned	\$ <u>3,539,381</u>		No redemption feature	None	Indefinite

(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

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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.

Endowment net asset composition by type of fund for the years ended June 30, 2020 and 2019 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	\$ —	271,827,529	271,827,529
Portion subject to appropriation	—	83,592,937	83,592,937
Board-designated quasi endowment	<u>14,294,049</u>	<u>—</u>	<u>14,294,049</u>
Total endowment funds, June 30, 2020	\$ <u><u>14,294,049</u></u>	<u><u>355,420,466</u></u>	<u><u>369,714,515</u></u>

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	<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>

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</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	14,271,593	387,084,504	401,356,097
Contributions and transfers to endowment	—	10,357,996	10,357,996
Appropriation of expenditures	(226,945)	(12,017,214)	(12,244,159)
Investment return:			
Investment income	745,955	13,037,864	13,783,819
Net depreciation	<u>(496,554)</u>	<u>(43,042,684)</u>	<u>(43,539,238)</u>
Endowment net assets, June 30, 2020	<u>\$ 14,294,049</u>	<u>355,420,466</u>	<u>369,714,515</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. As of June 30, 2020, endowments with a fair value below the amount of the gifts made to the endowment total \$24,030,000. The donor gifts to these endowments total \$25,260,000 for an underwater amount of \$1,230,000. There were no deficiencies at June 30, 2019.

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(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, 2020 and 2019 were \$1,183,000 and \$1,211,000, respectively, which are reflected within other assets in the accompanying statements of financial position.

(9) Charitable Trusts and Gift Annuities

The Foundation administers charitable remainder trusts with investments of \$3,939,228 and \$5,634,975 as of June 30, 2020 and 2019, 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 \$3,223,775 and \$4,413,780 as of June 30, 2020 and 2019, 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, 2020 and 2019:

	2020	2019
Land	\$ 300,000	300,000
Building and equipment	3,424,970	3,350,676
Furniture and fixtures	938,547	1,164,546
Total	4,663,517	4,815,222
Accumulated depreciation	(2,571,794)	(2,517,490)
Property and equipment, net	\$ 2,091,723	2,297,732

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 \$6,153,000 of the 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 \$226,000 of rugs with accumulated depreciation of \$60,000 previously shown in property and equipment to the University. As of June 30, 2020 and 2019, property and equipment included approximately \$657,000 and \$883,000, respectively of rugs placed in service within Foundation properties.

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(12) Net Assets with donor restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 were restricted for the following purposes:

	<u>2020</u>	<u>2019</u>
Spendable:		
Academic and program support	\$ 198,110,337	178,032,801
Scholarship support	56,335,571	75,759,328
Faculty support	25,893,939	39,100,045
Library support	<u>6,628,894</u>	<u>8,771,050</u>
Total	<u>286,968,741</u>	<u>301,663,224</u>
Endowment:		
Academic and program support	59,528,388	54,083,486
Scholarship support	122,075,173	118,100,910
Faculty support	76,217,594	75,311,037
Library support	<u>14,006,374</u>	<u>13,947,847</u>
Total	<u>271,827,529</u>	<u>261,443,280</u>
Total net assets with donor restrictions	\$ <u>558,796,270</u>	\$ <u>563,106,504</u>

(13) Funds Held for Others

The Foundation administered funds for others of \$23,079,151 and \$24,120,347 at June 30, 2020 and 2019, 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 2020 and 2019, the Foundation received approximately \$347,000 and \$340,000, respectively, for the University of Mississippi Alumni Association and \$1,372,000 and \$1,242,000, 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 2020 and 2019 included approximately \$604,000 and \$584,000, respectively, to the University of Mississippi Alumni Association and \$1,409,000 and \$1,234,000, 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 year 2020, the Foundation received approximately \$2,000,000 from these organizations and during fiscal years 2020 and 2019, the Foundation distributions to these organizations, at the organizations' direction, of approximately \$794,000 and \$1,180,000. No amounts were received by the Foundation during fiscal year 2019 from these organizations.

(14) Mississippi Common Fund Trust

Included in other liabilities are \$1,096,000 and \$1,708,000 at June 30, 2020 and 2019, 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

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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, 2020 and 2019 are as follows:

	2020	2019
Spendable:		
Academic and program support	\$ 27,329,632	23,234,287
Scholarship support	7,837,327	7,136,038
Faculty support	2,179,930	2,480,611
Library support	366,269	627,556
Total net assets released from restrictions	\$ 37,713,158	33,478,492

(16) Functional Expenses

Expenses by function and natural classification for the years ended June 30, 2020 and 2019 are as follows:

	Programmatic activities				Supporting activities		Total expenses
	Academic	Scholarship	Programmatic	UMMC	General and administrative	Fundraising	
June 30, 2020:							
Faculty support	\$ 3,735,552	—	—	—	—	—	3,735,552
Student aid support	—	9,336,811	—	1,084,709	—	—	10,421,520
Facilities	—	—	220,157	507,799	355,650	—	1,083,606
University support	1,448,005	—	7,959,197	1,134,111	—	92,939	10,634,252
Salaries	—	—	1,515,286	304,119	2,022,770	1,549,197	5,391,372
Library support	—	—	752,675	—	—	—	752,675
Donor relations	—	—	377,555	1,391,003	74,822	535,418	2,378,798
Accounting, legal and IT	—	—	—	—	290,889	—	290,889
Office expense and other	—	—	8,261,354	576,428	170,579	5,884	9,014,245
	\$ 5,183,557	9,336,811	19,086,224	4,998,169	2,914,710	2,183,438	43,702,909

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	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>