



THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



KPMG LLP
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6070 Poplar Avenue
Memphis, TN 38119-3901

Independent Auditors' Report

The Board of Directors
The University of Mississippi Foundation:

Opinion

We have audited the financial statements of The University of Mississippi Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Memphis, Tennessee
October 17, 2022

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statements of Financial Position

June 30, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 8,037,212	11,411,775
Pledges receivable, net	77,561,666	73,619,230
Investments	581,897,497	616,430,187
Beneficial interest in trusts	10,390,906	11,543,644
Property and equipment, net	1,831,075	1,971,997
Other assets	<u>1,419,302</u>	<u>1,549,643</u>
Total assets	<u>\$ 681,137,658</u>	<u>716,526,476</u>
Liabilities and Net Assets		
Funds held for others	\$ 24,831,031	26,531,386
Liabilities under remainder trusts and gift annuities	4,050,056	4,307,259
Other liabilities	<u>3,987,935</u>	<u>5,282,838</u>
Total liabilities	<u>32,869,022</u>	<u>36,121,483</u>
Net assets:		
Without donor restrictions	19,060,324	19,306,323
With donor restrictions	<u>629,208,312</u>	<u>661,098,670</u>
Total net assets	<u>648,268,636</u>	<u>680,404,993</u>
Total liabilities and net assets	<u>\$ 681,137,658</u>	<u>716,526,476</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support:			
Contributions, gifts and bequests, net	\$ 3,139,109	56,581,303	59,720,412
Contributions, gifts and bequests, net – nonfinancial	—	1,407,254	1,407,254
Investment return, net	(2,137,403)	(45,763,381)	(47,900,784)
Change in value of split-interest agreements	—	(752,749)	(752,749)
Management fees	1,944,825	(1,944,825)	—
Development fees	1,555,860	(1,555,860)	—
Other income	996,740	1,410,195	2,406,935
	5,499,131	9,381,937	14,881,068
Net assets released from restrictions/ redesignated by donor:			
Appropriation from donor endowment	11,327,992	(11,327,992)	—
Satisfaction of program restrictions	29,944,303	(29,944,303)	—
Expenses:			
Support for University activities:			
Academic	5,635,814	—	5,635,814
Scholarship	9,397,619	—	9,397,619
Programmatic	18,624,347	—	18,624,347
University of Mississippi Medical Center	7,869,403	—	7,869,403
General and administrative expenses	2,943,029	—	2,943,029
Fund-raising expenses	2,547,213	—	2,547,213
	47,017,425	—	47,017,425
Change in net assets	(245,999)	(31,890,358)	(32,136,357)
Net assets, beginning of year	19,306,323	661,098,670	680,404,993
Net assets, end of year	\$ 19,060,324	629,208,312	648,268,636

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Statement of Activities

Year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support:			
Contributions, gifts and bequests, net	\$ —	43,077,214	43,077,214
Contributions, gifts and bequests, net - nonfinancial	30,000	1,383,823	1,413,823
Investment return, net	5,068,727	129,726,862	134,795,589
Change in value of split-interest agreements	—	762,405	762,405
Management fees	1,918,640	(1,918,640)	—
Development fees	1,533,383	(1,533,383)	—
Other income	940,584	1,019,246	1,959,830
	9,491,334	172,517,527	182,008,861
Net assets released from restrictions/ redesignated by donor:			
Appropriation from donor endowment	9,859,894	(9,859,894)	—
Satisfaction of program restrictions	60,355,233	(60,355,233)	—
Expenses:			
Support for University activities:			
Academic	5,841,297	—	5,841,297
Scholarship	9,419,269	—	9,419,269
Programmatic	14,491,959	—	14,491,959
University of Mississippi Medical Center	41,504,609	—	41,504,609
General and administrative expenses	3,007,437	—	3,007,437
Fund-raising expenses	1,917,901	—	1,917,901
	76,182,472	—	76,182,472
Change in net assets	3,523,989	102,302,400	105,826,389
Net assets, beginning of year	15,782,334	558,796,270	574,578,604
Net assets, end of year	\$ 19,306,323	661,098,670	680,404,993

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (32,136,357)	105,826,389
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	156,027	163,714
Contributions restricted for long-term purposes and split interest agreements	(9,552,124)	(10,455,223)
Net realized and unrealized losses (gains) on investments	60,113,717	(129,312,482)
Provision for uncollectible pledges	1,609,208	1,127,423
Changes in operating assets and liabilities:		
Other assets	130,341	(227,314)
Pledges receivable	(5,551,644)	6,094,872
Funds held for others	233,649	(3,503,433)
Beneficial interest in perpetual trust	(545,101)	477,580
Beneficial interest in remainder trust	1,152,738	(1,314,218)
Liabilities under remainder trusts	321,900	123,968
Other liabilities	<u>(1,294,903)</u>	<u>2,350,053</u>
Net cash provided by (used in) operating activities	<u>14,637,451</u>	<u>(28,648,671)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(15,105)	(43,988)
Purchase of investments	(128,682,437)	(153,953,411)
Proceeds from sales and maturities of investments	<u>101,413,560</u>	<u>170,882,415</u>
Net cash (used in) provided by investing activities	<u>(27,283,982)</u>	<u>16,885,016</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes and split interest agreements	9,552,124	10,455,223
Payments to beneficiaries under remainder trusts	<u>(280,156)</u>	<u>(254,598)</u>
Net cash provided by financing activities	<u>9,271,968</u>	<u>10,200,625</u>
Net decrease in cash and cash equivalents	(3,374,563)	(1,563,030)
Cash and cash equivalents:		
Beginning of year	<u>11,411,775</u>	<u>12,974,805</u>
End of year	\$ <u><u>8,037,212</u></u>	<u><u>11,411,775</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2022 and 2021

(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 ("GAAP"), 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, revenues, 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 restrictions.

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

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Notes to Financial Statements

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Board-designated funds without the consent of the Board. Board-designated net assets are \$18,000,000 as of June 30, 2022 and 2021. 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 for uncollectible pledges of approximately \$1,609,000 and \$1,127,000 is included in the contributions, gifts and bequests caption within the statements of activities for the years ended June 30, 2022 and 2021, 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. Effective July 1, 2022, the Board has approved a reduction of the management fee to 0.4% on endowed funds. For the years ended June 30, 2022 and 2021, such fees totaled approximately \$3,501,000 and \$3,452,000, 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 years ended June 30, 2022 and 2021, such gifts totaled approximately \$7,563,000 and \$9,340,000, 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.

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Notes to Financial Statements

June 30, 2022 and 2021

Cash and cash equivalents and other financial assets available within one year at June 30, 2022 and 2021 are as follows:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 8,037,212	11,411,775
Pledges receivable, net	77,561,666	73,619,230
Investments	581,897,497	616,430,187
Other assets	1,419,302	1,549,643
Total financial assets at year end	668,915,677	703,010,835
Less those unavailable for general expenditures within one year due to:		
Restricted by donor with purpose restrictions	(185,101,375)	(174,917,979)
Subject to appropriation and satisfaction of donor restrictions	(466,297,952)	(510,450,424)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 17,516,350	17,642,432

(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, 2022 and 2021, 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. Realized and unrealized gains and losses, dividends and interest 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, 2022, open Federal and Mississippi tax years for the Foundation include tax years ended June 30, 2019, 2020, and 2021. The

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Foundation has no examinations in progress. As of June 30, 2022 and 2021, there were no material uncertain tax positions.

(g) Fair Value of Financial Instruments

The carrying amounts at June 30, 2022 and 2021 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) or 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 September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07 – Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07), 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. ASU 2020-07 was adopted as of July 1, 2021 and changes were made to the statement of activities retrospectively to present the nonfinancial contributions, gifts and bequests separately from the financial contributions, gifts and bequests. Also, changes were made for disclosure of fair value determination for contributed nonfinancial assets (see note 15).

(j) COVID-19

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. During fiscal year 2021, on-campus housing reopened and in-person classes resumed in a limited capacity; however, most non-academic activities remained virtual or occurred with substantially diminished in-person attendance. During fiscal year 2022, all in-person classes, meetings, performances and athletic events resumed. The full impact of the COVID-19 outbreak continues and it is unknown what the complete financial effect will be on the Foundation; however, management continues to monitor the impact on the Foundation as the world transitions to the post pandemic environment.

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Notes to Financial Statements

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(k) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB Accounting Standards Codification (ASC) Topic 855, *Subsequent Events*, the Foundation evaluated all events or transactions that occurred after June 30, 2022, through October 17, 2022, the date the financial statements were available to be issued. All subsequent events have been disclosed within the notes to the financial statements.

(l) Accounting Standards Issued but Not Currently Effective

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statements of financial position and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU 2020-05, delaying the effective date for not-for-profit entities until fiscal years beginning after December 15, 2021, with early adoption permitted. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its financial statements.

In October 2020, the FASB issued ASU 2020-10 *Codification Improvements*, which enhances accounting codification in several industries. The ASU is effective for annual periods in fiscal years beginning after December 15, 2021. The Foundation intends to adopt the new ASU guidance using the retrospective method as of July 1, 2022. The qualitative effects on the Foundation's future financial statements of these changes and related retrospective adjustments are currently being evaluated.

(m) Reclassifications

Certain reclassifications have been made to the 2021 consolidated financial statements to conform to the 2022 presentation.

(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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Unconditional promises expected to be collected in:		
One year	\$ 15,316,600	12,946,355
Two to five years	33,841,736	31,298,654
Six to ten years	19,162,096	16,902,472
More than ten years	23,533,950	26,176,994
	<u>91,854,382</u>	<u>87,324,475</u>
Allowances for uncollectible pledges	(2,776,987)	(2,940,129)
Present value discounts (rates ranging from 0.73% to 3.2%)	<u>(11,515,729)</u>	<u>(10,765,116)</u>
	<u>\$ 77,561,666</u>	<u>73,619,230</u>

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Notes to Financial Statements

June 30, 2022 and 2021

(4) Investments

The Foundation's investments, aggregated by investment strategy, consist of the following at June 30, 2022 and 2021:

	2022	2021
Investment strategy:		
Fixed income:		
U.S. government securities	\$ 10,168,279	3,294,335
Corporate bonds	30,797,249	28,591,118
Certificates of deposit	—	544,497
Other fixed income securities	25,802,336	27,911,175
Total fixed income	66,767,864	60,341,125
Equities:		
Common stocks	29,623,470	29,197,641
International common stock funds	610,003	928,262
Mutual funds	29,224,781	24,376,052
Total equities	59,458,254	54,501,955
Real estate owned	1,854,481	2,395,131
Other short-term investments	26,484,996	17,515,505
Pooled investment funds, at NAV:		
Diversifying strategies	18,308,654	19,411,496
Energy MLP	—	290,656
Event driven	70,892	77,849
Fixed income	30,664,702	34,164,781
Global equity	99,309,040	116,072,361
Global equity-long only	35,343,907	58,749,552
Long/short equity fund	17,122,992	13,659,376
Natural resource private fund	8,677,684	8,493,876
Private credit	5,144,939	7,765,426
Relative value	17,219,166	16,296,877
Timber fund	1,220,060	7,386,760
Other	39,572	36,871
Venture capital and private equity	194,210,294	199,270,590
Total pooled investment funds, at NAV	427,331,902	481,676,471
Total investments	\$ 581,897,497	616,430,187

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Notes to Financial Statements

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(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 \$3,162,000 and \$3,707,000 at June 30, 2022 and 2021, 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 \$7,229,000 and \$7,837,000 at June 30, 2022 and 2021, 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.

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Notes to Financial Statements

June 30, 2022 and 2021

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	10,168,279	—	10,168,279
Corporate bonds	—	30,797,249	—	30,797,249
Other fixed income securities	<u>21,481,165</u>	<u>4,321,171</u>	—	<u>25,802,336</u>
Total fixed income	<u>21,481,165</u>	<u>45,286,699</u>	—	<u>66,767,864</u>
Equities:				
Common stocks	29,623,470	—	—	29,623,470
International common stock funds	610,003	—	—	610,003
Mutual funds	<u>29,224,781</u>	—	—	<u>29,224,781</u>
Total equities	59,458,254	—	—	59,458,254
Real estate owned	—	—	1,854,481	1,854,481
Other short-term investments	<u>26,484,996</u>	—	—	<u>26,484,996</u>
	<u>\$ 107,424,415</u>	<u>45,286,699</u>	<u>1,854,481</u>	154,565,595
Pooled investment funds, at NAV				<u>427,331,902</u>
Total investments				<u>\$ 581,897,497</u>
Beneficial interest in trusts	<u>\$ 4,692,963</u>	<u>5,697,943</u>	—	<u>10,390,906</u>

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The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment strategy:				
Fixed income:				
U.S. government securities	\$ —	3,294,335	—	3,294,335
Corporate bonds	—	28,591,118	—	28,591,118
Certificates of deposit	—	544,497	—	544,497
Other fixed income securities	<u>23,822,756</u>	<u>4,088,419</u>	—	<u>27,911,175</u>
Total fixed income	<u>23,822,756</u>	<u>36,518,369</u>	—	<u>60,341,125</u>
Equities:				
Common stocks	29,197,641	—	—	29,197,641
International common stock funds	928,262	—	—	928,262
Mutual funds	<u>24,376,052</u>	—	—	<u>24,376,052</u>
Total equities	54,501,955	—	—	54,501,955
Real estate owned	—	—	2,395,131	2,395,131
Other short-term investments	<u>17,515,505</u>	—	—	<u>17,515,505</u>
	<u>\$ 95,840,216</u>	<u>36,518,369</u>	<u>2,395,131</u>	<u>134,753,716</u>
Pooled investment funds, at NAV				<u>481,676,471</u>
Total investments			\$	<u>616,430,187</u>
Beneficial interest in trusts	<u>\$ 3,922,205</u>	<u>7,621,439</u>	—	<u>11,543,644</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 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, 2022:

<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	\$ 18,308,654	—	Semiannually	60 days	Indefinite
Event driven	70,892	—	Quarterly	60 days	Indefinite
Fixed income	30,664,702	—	Daily	5 days	Indefinite
Global equity	99,309,040	—	Various	None	Indefinite
Global equity-long only	35,343,907	—	Quarterly	90 days	Indefinite
Long/short equity fund	17,122,992	—	Quarterly	60 days	Indefinite
Natural resource private fund	8,677,684	13,801	No redemption feature	None	10 years
Private credit	5,144,939	—	Quarterly	None	Indefinite
Relative value	17,219,166	—	Quarterly	65 days	Indefinite
Timber Fund	1,220,060	—	No redemption feature	None	12 years
Other	39,572	—	No redemption feature	None	Indefinite
Venture capital and private equity	<u>194,210,294</u>	65,420,976	No redemption feature	None	7 years to indefinite
	<u>\$ 427,331,902</u>				
Real estate:					
Real estate owned	\$ 1,854,481	—	No redemption feature	None	Indefinite

(7) Endowment Funds

The Foundation's endowment consists of approximately 1,600 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

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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, 2022 and 2021 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	\$ —	294,293,216	294,293,216
Portion subject to appropriation	—	130,691,505	130,691,505
Board-designated quasi endowment	<u>17,963,593</u>	<u>—</u>	<u>17,963,593</u>
Total endowment funds, June 30, 2022	\$ <u><u>17,963,593</u></u>	<u><u>424,984,721</u></u>	<u><u>442,948,314</u></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	\$ —	283,763,145	283,763,145
Portion subject to appropriation	—	181,845,430	181,845,430
Board-designated quasi endowment	<u>18,027,414</u>	<u>—</u>	<u>18,027,414</u>
Total endowment funds, June 30, 2021	\$ <u><u>18,027,414</u></u>	<u><u>465,608,575</u></u>	<u><u>483,635,989</u></u>

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Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2020	\$ 14,294,049	355,420,466	369,714,515
Contributions and transfers to endowment	—	11,458,036	11,458,036
Appropriation of expenditures	(152,148)	(13,311,917)	(13,464,065)
Investment return:			
Investment income	740,251	12,887,213	13,627,464
Net appreciation	3,145,262	99,154,777	102,300,039
Endowment net assets, June 30, 2021	18,027,414	465,608,575	483,635,989
Contributions and transfers to endowment	3,139,109	11,075,140	14,214,249
Appropriation of expenditures	(441,976)	(14,828,676)	(15,270,652)
Investment return:			
Investment income	495,782	33,168,872	33,664,654
Net depreciation	(3,256,736)	(70,039,190)	(73,295,926)
Endowment net assets, June 30, 2022	\$ <u>17,963,593</u>	<u>424,984,721</u>	<u>442,948,314</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, 2022, endowments with a fair value below the amount of the gifts made to the endowment totaled \$9,096,000. The donor gifts to these endowments total \$9,519,000 for an underwater amount of \$423,000. As of June 30, 2021, there were no endowments with deficiencies.

(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, 2022 and 2021 were approximately \$1,331,000 and \$1,337,000, 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 approximately \$4,898,000 and \$4,949,000 as of June 30, 2022 and 2021, respectively, which are reported as investments on the statements of financial position. Additionally, the cash contributed to purchase gift annuities is reported within investments on the statements of financial position. Pursuant to the trust agreements, specified amounts of income from the trust's assets must be distributed to the income beneficiaries each year. Liabilities under these trusts and gift annuities totaled approximately \$4,050,000 and \$4,307,000 as of June 30, 2022 and 2021, respectively. The discount rates used in these measurements range from 2.45% to 6.20%. The remainder of the income and the assets will become the property of the Foundation at a time designated in the trust agreements, usually upon the death of the income beneficiary.

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(10) Property and Equipment

Property and equipment consist of the following at June 30, 2022 and 2021:

	2022	2021
Land	\$ 300,000	300,000
Building and equipment	3,479,764	3,465,715
Furniture and fixtures	938,547	938,547
Total	4,718,311	4,704,262
Accumulated depreciation	(2,887,236)	(2,732,265)
Property and equipment, net	\$ 1,831,075	1,971,997

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) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2022 and 2021 were restricted for the following purposes:

	2022	2021
Spendable:		
Academic and program support	\$ 204,458,092	214,237,174
Scholarship support	79,187,175	101,935,356
Faculty support	36,682,808	50,037,880
Library support	14,587,021	11,125,115
Total	334,915,096	377,335,525
Endowment:		
Academic and program support	66,230,685	66,541,534
Scholarship support	136,064,159	128,436,338
Faculty support	77,794,403	74,824,783
Library support	14,203,969	13,960,490
Total	294,293,216	283,763,145
Total net assets with donor restrictions	\$ 629,208,312	661,098,670

(12) Funds Held for Others

The Foundation administered funds for others of approximately \$24,831,000 and \$26,531,000 at June 30, 2022 and 2021, 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.

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The Foundation assists with fund-raising activities of the University and processes the receipts for many University-affiliated organizations. During the years ended June 30, 2022 and 2021, the Foundation received approximately \$382,000 and \$299,000, respectively, for the University of Mississippi Alumni Association and approximately \$1,562,000 and \$2,855,000, respectively, for the Ole Miss Athletics Foundation. Distributions to these organizations, all of which were made at the direction of the affiliated organization, for the years ended June 30, 2022 and 2021 included approximately \$663,000 and \$576,000, respectively, to the University of Mississippi Alumni Association and approximately \$1,615,000 and \$2,865,000, respectively, to the Ole Miss Athletics Foundation. In addition to these affiliated organizations, the Foundation maintains funds for certain other third-party organizations. During both the years ended June 30, 2022 and 2021, the Foundation received approximately \$1,500,000, from these organizations and made distributions to these organizations, at the organizations' direction, of approximately \$1,048,000 and \$4,504,000, respectively.

(13) Mississippi Common Fund Trust

Included in other liabilities are approximately \$71,000 and \$1,521,000 at June 30, 2022 and 2021, 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.

(14) Net Assets Released from Donor Restrictions

Net assets utilized in accordance with donor restrictions during the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Spendable:		
Academic and program support	\$ 27,567,296	59,630,257
Scholarship support	9,981,398	7,640,505
Faculty support	3,101,050	2,496,367
Library support	<u>622,551</u>	<u>447,998</u>
Total net assets released from restrictions	\$ <u>41,272,295</u>	<u>70,215,127</u>

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(15) Contributed Nonfinancial Assets

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2022</u>	<u>2021</u>
Real estate	\$ 469,900	540,650
Software	571,600	651,600
Rental space	76,431	81,980
Educational courses	48,000	—
Artwork	89,425	37,400
Materials	61,000	—
Other	90,898	102,193
Total contributed nonfinancial assets	\$ <u>1,407,254</u>	<u>1,413,823</u>

The Foundation valued real estate and artwork at the appraised value or retail market value of the item donated and all were sold during the fiscal years with the appropriate gain or loss recognized. Software, rental space, educational courses, materials and other were valued by the Foundation at the fair value of the donated item based on the retail market value of comparable items or an estimate of the value by an appropriate qualified appraiser. All software, rental space, educational courses, materials and other were utilized. With the exception of artwork valued at \$30,000 received in 2021, all contributed nonfinancial assets have donor-imposed restrictions to be used for academic and programmatic support and library support for the university.

(16) Functional Expenses

Expenses by function and natural classification for the years ended June 30, 2022 and 2021 are as follows:

	<u>Programmatic activities</u>				<u>Supporting activities</u>		<u>Total expenses</u>
	<u>Academic</u>	<u>Scholarship</u>	<u>Programmatic</u>	<u>UMMC</u>	<u>General and administrative</u>	<u>Fundraising</u>	
June 30, 2022:							
Faculty support	\$ 4,221,541	—	—	—	—	—	4,221,541
Student aid support	—	9,397,619	—	1,707,434	—	—	11,105,053
Facilities	—	—	1,597,083	530,969	411,468	—	2,539,520
University support	1,414,273	—	10,453,983	3,528,465	—	173,280	15,570,001
Salaries	—	—	1,430,562	239,792	2,030,124	1,893,480	5,593,958
Library support	—	—	808,009	—	—	—	808,009
Donor relations	—	—	507,656	1,087,013	56,146	479,747	2,130,562
Accounting, legal and IT	—	—	—	—	237,659	—	237,659
Office expense and other	—	—	3,827,054	775,730	207,632	706	4,811,122
	\$ <u>5,635,814</u>	<u>9,397,619</u>	<u>18,624,347</u>	<u>7,869,403</u>	<u>2,943,029</u>	<u>2,547,213</u>	<u>47,017,425</u>

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	<u>Programmatic activities</u>				<u>Supporting activities</u>		<u>Total expenses</u>
	<u>Academic</u>	<u>Scholarship</u>	<u>Programmatic</u>	<u>UMMC</u>	<u>General and administrative</u>	<u>Fundraising</u>	
June 30, 2021:							
Faculty support	\$ 4,310,396	—	—	—	—	—	4,310,396
Student aid support	—	9,419,269	—	1,220,742	—	—	10,640,011
Facilities	—	—	1,039,970	604,151	384,675	—	2,028,796
University support	1,530,901	—	8,913,258	37,622,010	—	101,940	48,168,109
Salaries	—	—	1,835,453	355,352	2,089,544	1,542,057	5,822,406
Library support	—	—	785,253	—	—	—	785,253
Donor relations	—	—	112,987	661,866	49,760	272,651	1,097,264
Accounting, legal and IT	—	—	—	—	284,071	—	284,071
Office expense and other	—	—	1,805,038	1,040,488	199,387	1,253	3,046,166
	<u>\$ 5,841,297</u>	<u>9,419,269</u>	<u>14,491,959</u>	<u>41,504,609</u>	<u>3,007,437</u>	<u>1,917,901</u>	<u>76,182,472</u>