UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Trustees
University of Nebraska Foundation:

We have audited the accompanying consolidated financial statements of the University of Nebraska Foundation (a Nebraska not-for-profit corporation) (the Foundation) as of June 30, 2013 and 2012, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Nebraska Foundation as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Lincoln, Nebraska
September 24, 2013

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2013 and 2012

(Dollar amounts in thousands)

Assets		**2013**	**2012**
Assets:			
Cash and cash equivalents	$	314	6,380
Temporary investments		353,132	321,310
Pledges receivable		214,128	179,780
Other receivables		3,950	3,651
Investments		1,384,210	1,252,566
Property and equipment, net of depreciation		5,585	6,068
Total assets	$	1,961,319	1,769,755
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	909	852
University of Nebraska benefits payable		2,940	3,078
Scholarships, research, fellowships, and professorships payable		4,883	5,128
Deferred annuities payable		20,966	20,824
Deposits held in custody for others		297,714	270,021
Deferred revenue		3,516	3,580
Total liabilities		330,928	303,483
Net assets:			
Unrestricted		3,226	(15,574)
Temporarily restricted		857,029	738,242
Permanently restricted		770,136	743,604
Total net assets		1,630,391	1,466,272
Total liabilities and net assets	$	1,961,319	1,769,755

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2013

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and gains:					
Gifts, bequests, and life insurance proceeds	$	976	194,395	41,370	236,741
Investment income		29,156	7,756	—	36,912
Change in value of split-interest agreements		—	564	—	564
Realized gain on investments, net		194	32,674	—	32,868
Unrealized gain on investments, net		24,333	37,440	—	61,773
		54,659	272,829	41,370	368,858
Reclassification due to change in donor intent		—	14,838	(14,838)	—
Net assets released from restrictions		168,880	(168,880)	—	—
Total revenues and gains		223,539	118,787	26,532	368,858
Expenses:					
Payments for the benefit of the University:					
Academic support		44,760	—	—	44,760
Student assistance		21,440	—	—	21,440
Faculty assistance		4,712	—	—	4,712
Research		6,650	—	—	6,650
Museum, library, and fine arts		2,384	—	—	2,384
Campus and building improvements		93,929	—	—	93,929
Alumni associations		838	—	—	838
Deferred compensation		10	—	—	10
Total payments to benefit the University		174,723	—	—	174,723
Operating expenses:					
Salaries and benefits		14,226	—	—	14,226
Investment expense		5,466	—	—	5,466
General and administrative		3,836	—	—	3,836
Fund-raising, promotion, and development		2,410	—	—	2,410
Paid to beneficiaries		3,170	—	—	3,170
Depreciation		908	—	—	908
Total operating expenses		30,016	—	—	30,016
Total expenses		204,739	—	—	204,739
Increase in net assets		18,800	118,787	26,532	164,119
Net assets (deficit) at beginning of year		(15,574)	738,242	743,604	1,466,272
Net assets at end of year	$	3,226	857,029	770,136	1,630,391

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and gains:					
Gifts, bequests, and life insurance proceeds	$	471	118,748	45,745	164,964
Investment income		25,641	5,516	—	31,157
Change in value of split-interest agreements		—	1,629	—	1,629
Realized gain on investments, net		48	21,982	—	22,030
Unrealized loss on investments, net		(23,017)	(1,523)	—	(24,540)
		3,143	146,352	45,745	195,240
Reclassification due to change in donor intent		—	6,268	(6,268)	—
Net assets released from restrictions		123,553	(123,553)	—	—
Total revenues and gains		126,696	29,067	39,477	195,240
Expenses:					
Payments for the benefit of the University:					
Academic support		38,410	—	—	38,410
Student assistance		17,960	—	—	17,960
Faculty assistance		4,645	—	—	4,645
Research		7,298	—	—	7,298
Museum, library, and fine arts		3,062	—	—	3,062
Campus and building improvements		51,348	—	—	51,348
Alumni associations		978	—	—	978
Deferred compensation		17	—	—	17
Total payments to benefit the University		123,718	—	—	123,718
Operating expenses:					
Salaries and benefits		14,481	—	—	14,481
Investment expense		6,801	—	—	6,801
General and administrative		4,431	—	—	4,431
Fund-raising, promotion, and development		2,966	—	—	2,966
Paid to beneficiaries		3,093	—	—	3,093
Depreciation		1,111	—	—	1,111
Total operating expenses		32,883	—	—	32,883
Total expenses		156,601	—	—	156,601
(Decrease) increase in net assets		(29,905)	29,067	39,477	38,639
Net assets at beginning of year		14,331	709,175	704,127	1,427,633
Net assets at end of year	$	(15,574)	738,242	743,604	1,466,272

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Increase in net assets	$	164,119	38,639
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
Depreciation		908	1,111
Realized gain on investments, net		(32,868)	(22,030)
Unrealized loss (gain) on investments, net		(61,773)	24,540
Contribution to permanently restricted endowment funds		(41,370)	(45,745)
Real and personal property contributions received		(701)	(1,678)
(Increase) decrease in:			
Pledges receivable		(24,251)	(24,550)
Other receivables		(157)	(511)
(Decrease) increase in:			
Accounts payable and accrued liabilities		57	(49)
University of Nebraska benefits payable		(138)	241
Scholarships, research, fellowships, and professorships payable		(245)	(5,537)
Deferred annuities payable		142	(2,025)
Deferred revenue		(64)	(65)
Net cash provided by (used in) operating activities		3,659	(37,659)
Cash flows from investing activities:			
Purchase of temporary investments		(124,297)	(166,961)
Proceeds from sale and maturity of temporary investments		92,617	132,077
Net decrease in student loans		(142)	(149)
Purchase of investments		(509,168)	(1,953,774)
Proceeds from sale and maturity of investments		500,227	1,989,313
Proceeds from sales of property and equipment		8	269
Purchase of property and equipment		(243)	(426)
Net cash provided by (used in) investing activities		(40,998)	349
Cash flows from financing activity:			
Contribution to permanently restricted endowment funds		31,273	41,635
Net cash provided by financing activity		31,273	41,635
Net (decrease) increase in cash and cash equivalents		(6,066)	4,325
Cash and cash equivalents, beginning of year		6,380	2,055
Cash and cash equivalents, end of year	$	314	6,380

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of the Entity and Principles of Consolidation

The University of Nebraska Foundation (the Foundation) is a nonprofit corporation whose purpose is to provide financial support to the University of Nebraska system. The accompanying consolidated financial statements include the Foundation's wholly owned subsidiary, University of Nebraska Technology Park, LLC (Tech Park), which provides incubator facilities for emerging businesses. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets that have similar characteristics have been combined into similar categories as follows:

- The unrestricted net assets account for resources over which the governing board has discretionary control to use in carrying on the operations of the Foundation.
- The temporarily restricted net assets account for those resources whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.
- The permanently restricted net assets account for resources whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and any other assets or liabilities are reported as increases in unrestricted net assets unless their use is limited by donor stipulation or by laws. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturity of three months or less when purchased, excluding those amounts held as part of the investment portfolio.

The Foundation maintains cash balances and certificates of deposit at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At various times during the fiscal year, the Foundation's cash in bank balances exceeded the federally insured limits. The Foundation has maintained its cash balances and certificates of deposit at financial institutions in accordance with all Foundation policies and procedures.

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(d) Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(e) Investments and Temporary Investments

Investments and temporary investments in marketable securities are reported at fair value. Investments in securities traded on a national securities exchange are valued at the latest quoted market prices. Corporate bonds are valued at market quotations for securities that have quoted prices in active markets, valued at estimated fair values obtained from a pricing service using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads, and measures of volatility. For other fixed income securities, the fair value is determined using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. The Foundation obtained one price for each instrument and did not adjust any of these prices.

For alternative investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate funds, commingled funds, and similar funds, the Foundation estimates fair value using net asset value per share or its equivalent as a practical expedient to fair value. These investments in limited partnerships are generally valued based upon the most recent net asset value or capital account information available from the general partner of the limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value.

Investments in closely held stock are estimated based on independent appraisals and information provided by the respective companies.

Real estate, mortgage contracts, annuities, and the cash value of insurance policies are recorded at amortized cost. They are reviewed for impairment on an annual basis.

Temporary investments comprise short-term investments used to maintain liquidity, mainly fixed income securities either explicitly or implicitly backed by the U.S. government and money market funds. Investments comprise a mix of equities, fixed income, other investments and alternative investments, which have a longer-term focus.

Donated investments are reported at estimated fair value at the date of receipt. Realized gains and losses on sales of investments are recognized in the consolidated statements of activities as specific

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investments are sold. Interest income is recognized as earned. Dividend income is recognized on the ex-dividend date. All realized and unrealized gains and losses and income arising from investments are recognized in the consolidated statements of activities as increases or decreases to unrestricted net assets unless their use is restricted by donor stipulation or by law.

(f) Property and Equipment

Property and equipment, consisting of real estate, furniture, equipment, and computer software, are stated at cost or, if contributed, at fair market value at date of contribution. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which ranges from 3 to 32 years.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

(g) Deposits Held for Others

Deposits held for others represent funds held in a fiduciary capacity. The transactions of these funds are not reflected in the consolidated statements of activities as the Foundation is acting as an agent for these funds. Such funds approximated $298 million and $270 million at June 30, 2013 and 2012 and were held on behalf of the University of Nebraska and other related entities.

(h) Fair Value of Financial Instruments

The Foundation applies the provisions included in Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring and nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Foundation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Foundation's valuation methodologies 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 estimate of fair value at the reporting date.

Cash and cash equivalents, other receivables, accounts payable and accrued liabilities, University of Nebraska benefits payable, scholarships, research, fellowships and professorships payable, and deferred revenue approximate fair value due to their short-term nature. The carrying value of deferred annuities payable and pledges receivable approximates fair value since the inherent interest rates closely reflect current market rates.

(i) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2013 and 2012, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

(j) Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Fair Value Measurements

The Foundation utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The Foundation maximized the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information for external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

(Dollars in thousands)

The tables below present the balances of assets measured at June 30, 2013 and 2012 at fair value on a recurring basis.

	2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Certificates of deposit, savings, and money funds	$ 23,576	23,576	—	—
U.S. government securities and sovereign debt	34,952	—	34,952	—
State government securities	804	—	804	—
Local government securities	1,079	—	1,079	—
International bonds	28,279	—	28,279	—
Corporate bonds	63,984	63,984	—	—
Common stock	374,396	353,238	—	21,158
Mutual funds – equity	118,817	118,817	—	—
Mutual funds – fixed income	138,354	138,354	—	—
Real estate funds	4,780	—	—	4,780
Limited partnerships	530,660	—	511,168	19,492
Preferred stock	1,411	—	1,411	—
Temporary investments:				
U.S. Treasuries	193,864	—	193,864	—
Certificates of deposit	6,029	—	6,029	—
State government securities	23,345	—	23,345	—
Local government securities	38,008	—	38,008	—
Corporate bonds	90,611	90,611	—	—
Total	$ 1,672,949	788,580	838,939	45,430

(Dollars in thousands)

	2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Certificates of deposit, savings, and money funds	$ 25,133	25,133	—	—
U.S. government securities and sovereign debt	9,629	—	9,629	—
State government securities	1,589	—	1,589	—
Local government securities	1,475	—	1,475	—
International bonds	31,241	—	31,241	—
Corporate bonds	97,147	97,147	—	—
Common stock	301,109	281,926	—	19,183
Mutual funds – equity	68,522	68,522	—	—
Mutual funds – fixed income	159,257	159,257	—	—
Real estate funds	5,379	—	—	5,379
Limited partnerships	494,240	—	477,668	16,572
Preferred stock	167	—	167	—
Temporary investments:				
U.S. Treasuries	244,290	244,290	—	—
Certificates of deposit	6,329	—	6,329	—
State government securities	4,754	—	4,754	—
Local government securities	14,765	—	14,765	—
Corporate bonds	46,280	46,280	—	—
Total	$ 1,511,306	922,555	547,617	41,134

Certain investments in limited partnerships and real estate funds classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the date of the consolidated statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Dollars in thousands)

The policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. There were no transfers between levels during the year ended June 30, 2013. During 2012, $19,184 of investments were transferred between Level 2 and Level 3. The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Balance, June 30, 2011	$	20,369
Transfers and reclassifications		19,184
Net realized gains		2,261
Net unrealized losses		(876)
Interest, dividends, and other income/losses		(60)
Investment management fees		(522)
Purchases		3,546
Distributions		(2,768)
Balance, June 30, 2012		41,134
Transfers and reclassifications		—
Net realized gains		2,097
Net unrealized gains		2,259
Interest, dividends, and other income/losses		(1,199)
Investment management fees		(497)
Purchases		4,705
Distributions		(3,069)
Balance, June 30, 2013	$	45,430

(Dollars in thousands)

(3) Investments

Investments consist of the following at June 30, 2013 and 2012:

		2013	2012
Investments stated at fair value:			
Certificates of deposit, savings, and money funds	$	23,576	25,133
U.S. government securities and sovereign debt		34,952	9,629
State government securities		804	1,589
Local government securities		1,079	1,475
International bonds		28,279	31,241
Corporate bonds		63,984	97,147
Common stock		374,396	301,109
Mutual funds – equity		118,817	68,522
Mutual funds – fixed income		138,354	159,257
Real estate funds		4,780	5,379
Limited partnerships		530,660	494,240
Preferred stock		1,411	167
Investments stated at other than fair value:			
Real estate		53,727	47,828
Real estate mortgage and contracts		2,418	3,075
Other		4,132	3,862
Cash value of life insurance		2,683	2,755
Annuity contracts		158	158
	$	1,384,210	1,252,566
Temporary investments stated at fair value:			
U.S. Treasuries	$	193,864	244,290
Certificates of deposit		6,029	6,329
State government securities		23,345	4,754
Local government securities		38,008	14,765
Corporate bonds		90,611	46,280
Temporary investments stated at other than fair value:			
Real estate		1,275	4,892
	$	353,132	321,310

(Dollars in thousands)

The estimated value of certain alternative investments and nonmarketable securities, such as partnerships and private equity funds, was provided by the respective companies. For these alternative investments, the Foundation uses the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value at June 30, 2013 and 2012:

	2013			
	Fair value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Domestic equities	$ 162,680	—	m/q	1–90 days
International equities	194,186	—	m/q	1–90 days
Commodities	25,521	—	m/q	1–90 days
Private equity/venture capital	12,895	18,764	N/A	N/A
Real asset funds	7,790	12,248	N/A	N/A
Hedge funds:				
Domestic long/short	30,001	—	q/sa/a	90–360 days
Global long/short	29,336	—	q/sa/a	90–360 days
Multiple strategies	46,426	—	q/sa/a	90–360 days
Credit strategies	26,605	—	q/sa/a	90–360 days
	$ 535,440	31,012		

* m – monthly, q – quarterly, sa – semiannual, a – annual

	2012			
	Fair value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Domestic equities	$ 142,978	—	m/q	1–90 days
International equities	229,956	—	m/q	1–90 days
Commodities	25,060	—	m/q	1–90 days
Private equity/venture capital	11,148	10,135	N/A	N/A
Real asset funds	10,803	4,147	N/A	N/A
Hedge funds:				
Domestic long/short	14,192	—	q/sa/a	90–360 days
Global long/short	18,313	—	q/sa/a	90–360 days
Multiple strategies	31,282	—	q/sa/a	90–360 days
Credit strategies	15,887	—	q/sa/a	90–360 days
	$ 499,619	14,282		

* m – monthly, q – quarterly, sa – semiannual, a – annual

(Continued)

(Dollars in thousands)

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Foundation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

(4) Pledges Receivable

Pledges receivable are recorded on the consolidated statements of financial position as assets net of an allowance for uncollectible accounts and discounted to their present value. Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected as follows as of June 30, 2013 and 2012:

		2013	2012
Gross amount due in:			
One year or less	$	65,932	67,409
One to five years		151,373	118,607
More than five years		30,979	21,073
		248,284	207,089
Less discount to present value		27,534	21,749
		220,750	185,340
Less allowance for doubtful accounts		6,622	5,560
	$	214,128	179,780

The discount will be recognized as contribution income in years 2014 through 2041.

In addition, the Foundation has been informed of intentions to give in the form of possible future bequests, currently of indeterminable value, that have not been reflected in the accompanying consolidated financial statements because they are not unconditional promises.

(Dollars in thousands)

(5) Property and Equipment

Property and equipment at June 30, 2013 and 2012 are as follows:

		2013	2012
Property	$	1,692	1,692
Leasehold improvements		3,300	3,292
Aircraft		4,177	4,177
Automobiles		307	265
Furniture, equipment, and software		7,285	7,173
		16,761	16,599
Less accumulated depreciation		11,176	10,531
Net property and equipment	$	5,585	6,068

(6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. The value of split-interest agreements is measured as the Foundation’s share of the assets. Liabilities associated with these agreements as of June 30, 2013 and 2012 are $20,966 and $20,824, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position.

(7) Net Assets

Net assets are restricted by donors for various purposes in support of activities at the University of Nebraska, including the campuses at Lincoln, Kearney, Omaha, and the Medical Center in Omaha. The purposes include scholarships, fellowships, research, academic support, and campus building and improvements. Temporarily restricted net assets consist of gifts contributed for a specified period or until the occurrence of some future event or unspent earnings on endowed funds.

The amounts of the net assets as of June 30, 2013 and 2012 are as follows:

		2013	2012
Temporarily restricted – charitable trusts and annuities	$	28,564	28,319
Temporarily restricted – available for specific purposes		828,465	709,923
Permanently restricted – endowment		770,136	743,604
	$	1,627,165	1,481,846

The Foundation had unrestricted net assets of $3,226 and $(15,574) at the end of 2013 and 2012, respectively. Net assets of $168,880 and $123,553 were released from donor restrictions during 2013 and

(Continued)

2012 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(8) Endowments

The Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) sets out guidelines to be considered when managing and investing donor-restricted endowment funds. The Foundation applies ASC Topic 958, *Not-for-Profit Entities* (FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds)*.

The Foundation's endowment consists of approximately 4,600 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by generally accepted accounting principles, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted NUPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Interest, dividends, and net appreciation of the donor-restricted endowment funds are classified according to donor stipulations, if any. Absent any donor-imposed restrictions, interest, dividends, and net appreciation of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the endowment fund

(2) the purposes of the Foundation and the donor-restricted endowment fund

(3) general economic conditions

(4) the possible effect of inflation or deflation

(5) the expected total return from income and the appreciation of investments

(6) other resources of the Foundation

(7) the investment policy of the Foundation

(Dollars in thousands)

Endowment net asset composition by type of fund as of June 30, 2013 and 2012 is as follows:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (26,793)	318,688	770,136	1,062,031

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (42,588)	260,415	743,604	961,431

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Endowment net assets, beginning of year	$ (42,588)	260,415	743,604	961,431
Contributions	—	7,236	41,370	48,606
Investment income, net of expenses	—	8,098	—	8,098
Net appreciation	15,795	71,763	—	87,558
Amounts appropriated for expenditure	—	(43,662)	—	(43,662)
Reclassification due to change in donor intent	—	14,838	(14,838)	—
Endowment net assets, end of year	$ (26,793)	318,688	770,136	1,062,031

(Dollars in thousands)

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Endowment net assets, beginning of year	$ (17,449)	290,602	704,127	977,280
Contributions	—	5,901	45,745	51,646
Investment income, net of expenses	—	5,139	—	5,139
Net appreciation (depreciation)	(25,139)	1,516	—	(23,623)
Amounts appropriated for expenditure	—	(42,743)	—	(42,743)
Reclassification due to change in donor intent	—	—	(6,268)	(6,268)
Endowment net assets, end of year	$ (42,588)	260,415	743,604	961,431

(a) Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors of the Foundation, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities, and illiquid alternative investments that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to earn a real (inflation-adjusted) rate of return of at least 5.5% per year net of investment management fees and transaction costs, when measured over rolling five-year period. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

(b) Spending Policy and How the Investment Objectives Relate to the Appropriate Policy

The Foundation has a policy of appropriating for distribution each year 4.5% of the average fair market value of the prior 20 quarters. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. This policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

(Continued)

(Dollars in thousands)

(9) Lease Commitments

The Foundation entered into an amended lease agreement for rental of office space on the second and third floors in Lincoln, beginning September 1, 2007 and extending through August 31, 2017. The annual rental was \$577 through calendar year 2012, with an increase to \$52 based on changes in the consumer price index for the period from January 1, 2013 through August 31, 2017. The Foundation had also entered into a contract for rental of office space in Omaha for 15 years beginning on November 1, 2008 with increases every 60 months. The annual rental is \$388 for the first five years and \$419 for the next five years. The Foundation entered into an amended lease agreement for office space in Kearney for the period from November 1, 2008 to October 31, 2014 at a rental rate of \$3 per month with an increase to \$4 effective November 1, 2011. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2013 are as follows:

2014	$	1,075
2015		1,057
2016		1,042
2017		1,042
2018		523

(10) Retirement Plan

The Foundation sponsors a retirement plan that covers employees of the Foundation with one year of service who work in excess of 1,000 hours annually and have attained the age of 21 years or previous participation in the TIAA-CREF or Fidelity annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Section 403b(1) of the Internal Revenue Code using annuities under TIAA-CREF and Fidelity Investments. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of his/her salary to the plan and the Foundation matches the amount with either 8.0% or 6.5% of salary, respectively. Effective January 1, 2012, any employee enrolling in the lower tier of the plan will contribute 3.5% of salary to the retirement plan and receive an employer contribution equal to 5.5% of the employee's salary. Any employee currently enrolled in the lower tier will be grandfathered as long as he/she continues his/her current enrollment in the lower tier and will receive an employer contribution of 6.5% of his/her salary. However, if the employee elects to move to the higher tier (5.5% employee, 8.0% employer) at any future time and subsequently wishes to reenroll in the lower tier, he/she will be subject to the employer contribution rate in effect at that time. The Foundation contributions to the plans for the years ended June 30, 2013 and 2012 were \$764 and \$774, respectively.

(11) Contingencies and Commitments

The Foundation is involved in several legal actions. The Foundation believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final dispositions of these matters will not have a material effect on the Foundation's financial position.

(12) Subsequent Events

In preparing the consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 24, 2013, the date the consolidated financial statements were available to be issued.