



UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Board of Directors
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), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, 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 auditor considers 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, 2014 and 2013, 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
October 23, 2014

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(Dollar amounts in thousands)

Assets	2014	2013
Assets:		
Cash and cash equivalents	\$ 8,452	314
Temporary investments	373,607	353,132
Pledges receivable	252,387	214,128
Other receivables	11,591	3,950
Investments	1,606,298	1,384,210
Property and equipment, net of depreciation	4,696	5,585
Total assets	<u>\$ 2,257,031</u>	<u>1,961,319</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,035	909
University of Nebraska benefits payable	2,520	2,940
Scholarships, research, fellowships, and professorships payable	3,111	4,883
Deferred annuities payable	21,424	20,966
Deposits held in custody for others	336,036	297,714
Deferred revenue	3,450	3,516
Total liabilities	<u>367,576</u>	<u>330,928</u>
Net assets:		
Unrestricted	26,598	3,226
Temporarily restricted	1,037,947	857,029
Permanently restricted	824,910	770,136
Total net assets	<u>1,889,455</u>	<u>1,630,391</u>
Total liabilities and net assets	<u>\$ 2,257,031</u>	<u>1,961,319</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and gains:				
Gifts, bequests, and life insurance proceeds	\$ 690	210,727	46,692	258,109
Investment income	30,722	5,213	—	35,935
Change in value of split-interest agreements	—	(499)	—	(499)
Realized and unrealized gains, net	23,370	146,434	—	169,804
	<u>54,782</u>	<u>361,875</u>	<u>46,692</u>	<u>463,349</u>
Reclassification due to change in donor intent	—	(8,082)	8,082	—
Net assets released from restrictions	172,875	(172,875)	—	—
Total revenues and gains	<u>227,657</u>	<u>180,918</u>	<u>54,774</u>	<u>463,349</u>
Expenses:				
Payments for the benefit of the University:				
Academic support	37,731	—	—	37,731
Student assistance	26,952	—	—	26,952
Faculty assistance	5,453	—	—	5,453
Research	7,297	—	—	7,297
Museum, library, and fine arts	2,247	—	—	2,247
Campus and building improvements	92,707	—	—	92,707
Alumni associations	868	—	—	868
Deferred compensation	9	—	—	9
Total payments to benefit the University	<u>173,264</u>	<u>—</u>	<u>—</u>	<u>173,264</u>
Operating expenses:				
Salaries and benefits	14,509	—	—	14,509
Investment expense	6,195	—	—	6,195
General and administrative	4,655	—	—	4,655
Fund-raising, promotion, and development	1,851	—	—	1,851
Paid to beneficiaries	3,208	—	—	3,208
Depreciation	603	—	—	603
Total operating expenses	<u>31,021</u>	<u>—</u>	<u>—</u>	<u>31,021</u>
Total expenses	<u>204,285</u>	<u>—</u>	<u>—</u>	<u>204,285</u>
Increase in net assets	23,372	180,918	54,774	259,064
Net assets at beginning of year	3,226	857,029	770,136	1,630,391
Net assets at end of year	\$ <u>26,598</u>	<u>1,037,947</u>	<u>824,910</u>	<u>1,889,455</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2013

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 and unrealized gains, net	24,527	70,114	—	94,641
	<u>54,659</u>	<u>272,829</u>	<u>41,370</u>	<u>368,858</u>
Reclassification due to change in donor intent	—	14,838	(14,838)	—
Net assets released from restrictions	168,880	(168,880)	—	—
Total revenues and gains	<u>223,539</u>	<u>118,787</u>	<u>26,532</u>	<u>368,858</u>
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	<u>174,723</u>	<u>—</u>	<u>—</u>	<u>174,723</u>
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	<u>30,016</u>	<u>—</u>	<u>—</u>	<u>30,016</u>
Total expenses	<u>204,739</u>	<u>—</u>	<u>—</u>	<u>204,739</u>
Increase in net assets	18,800	118,787	26,532	164,119
Net assets (deficit) at beginning of year	<u>(15,574)</u>	<u>738,242</u>	<u>743,604</u>	<u>1,466,272</u>
Net assets at end of year	\$ <u>3,226</u>	<u>857,029</u>	<u>770,136</u>	<u>1,630,391</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 259,064	164,119
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	603	908
Net realized and unrealized gain on investments	(169,804)	(94,641)
Contribution to permanently restricted endowment funds	(46,692)	(41,370)
Real and personal property contributions received	(40)	(701)
(Increase) decrease in:		
Pledges receivable	(32,956)	(24,251)
Other receivables	(7,646)	(157)
(Decrease) increase in:		
Accounts payable and accrued liabilities	126	57
University of Nebraska benefits payable	(420)	(138)
Scholarships, research, fellowships, and professorships payable	(1,772)	(245)
Deferred annuities payable	458	142
Deferred revenue	(66)	(64)
Net cash provided by operating activities	<u>855</u>	<u>3,659</u>
Cash flows from investing activities:		
Purchase of temporary investments	(124,365)	(124,297)
Proceeds from sale and maturity of temporary investments	106,037	92,617
Net increase (decrease) in student loans	5	(142)
Purchase of investments	(421,681)	(509,168)
Proceeds from sale and maturity of investments	405,419	500,227
Proceeds from sales of property and equipment	1,001	8
Purchase of property and equipment	(522)	(243)
Net cash (used in) investing activities	<u>(34,106)</u>	<u>(40,998)</u>
Cash flows from financing activity:		
Contribution to permanently restricted endowment funds	<u>41,389</u>	<u>31,273</u>
Net cash provided by financing activity	<u>41,389</u>	<u>31,273</u>
Net increase (decrease) in cash and cash equivalents	8,138	(6,066)
Cash and cash equivalents, beginning of year	<u>314</u>	<u>6,380</u>
Cash and cash equivalents, end of year	<u>\$ 8,452</u>	<u>314</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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. At times, the Foundation receives requests by donors or their designees to change the use for which the gifts were originally intended. The requests are reviewed by the Foundation for approval. Approved changes, depending on the donor's request, may result in the reclassification due to change in donor intent in the consolidated statement of activities.

(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.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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.

(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 equity securities with readily determinable fair values and debt 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 records these investments at fair value and 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 recorded at fair value and fair value is 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.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

Temporary investments comprise short-term investments used to maintain liquidity, mainly a mix of U.S., state, and local government fixed income securities and corporate bonds. Investments comprise a mix of equities, fixed income, other investments, and alternative investments, which have a longer term focus (generally investing endowment funds).

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 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.

Included in investment income is a management fee charged to accounts within each net asset class for which the Foundation manages investments. This management fee is charged based on the market value and type of investments managed. These fees are used for the administration of the Foundation's management and fundraising operations. During the years ended June 30, 2014 and 2013, \$16,377 and \$15,099 was charged to temporarily restricted investment income and credited to unrestricted investment income in the consolidated statement of activities related to the management fee for endowment funds. Also included in unrestricted investment income in the consolidated statement of activities for the year ended June 30, 2014 and 2013, is \$4,810 and \$4,555, respectively, of a management fee charged to agency funds.

(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 \$336 million and \$298 million at June 30, 2014 and 2013 and were held on behalf of the University of Nebraska and other related entities.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(h) *Fair Value of Financial Instruments*

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. The Foundation believes it is no longer subject to income tax examinations for years prior to 2011. During 2014 and 2013, 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.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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.

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.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

The tables below present the balances of assets measured at June 30, 2014 and 2013 at fair value on a recurring basis.

	2014			
	Total	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit, savings, and money funds	\$ 24,514	24,422	92	—
U.S. government securities and sovereign debt	36,750	—	36,750	—
State government securities	419	—	419	—
Local government securities	870	—	870	—
International bonds	29,507	—	29,507	—
Corporate bonds	65,497	—	65,497	—
Common stock	466,183	445,671	—	20,512
Mutual funds – equity	111,775	111,775	—	—
Mutual funds – fixed income	141,126	141,126	—	—
Real estate funds	3,191	—	—	3,191
Limited partnerships	658,090	—	485,856	172,234
Preferred stock	2,253	—	2,253	—
Temporary investments:				
U.S. Treasuries	173,503	—	173,503	—
Certificates of deposit	1,539	—	1,539	—
State government securities	38,935	—	38,935	—
Local government securities	45,701	—	45,701	—
Corporate bonds	111,969	—	111,969	—
Total	\$ <u>1,911,822</u>	<u>722,994</u>	<u>992,891</u>	<u>195,937</u>

	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	—	—

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	2013			
	Total	Level 1	Level 2	Level 3
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

The policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. During 2014, management reviewed its policy for classifying investments within the fair value hierarchy recorded at net asset value as a practical expedient for fair value and the Foundation's definition of ability to liquidate in the near term and determined that as a policy, investments in which it cannot liquidate without gates or penalties within 90 days as of June 30, would be classified as Level 3 inputs. Based on this revised policy, during 2014, the Foundation transferred \$132,368 of limited partnerships into Level 3. Also, during 2014, based on the review of third party pricing and trading activity, management transferred corporate bonds into the Level 2 category. There were no transfers between levels during the year ended June 30, 2013. 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, 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	<u>(3,069)</u>
Balance, June 30, 2013	45,430

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

Transfers and reclassifications	\$	132,368
Net realized gains		952
Net unrealized gains		16,719
Interest, dividends, and other income/losses		(1,663)
Investment management fees		(413)
Purchases		18,911
Distributions		<u>(16,367)</u>
Balance, June 30, 2014	\$	<u><u>195,937</u></u>

(3) Investments

Investments consist of the following at June 30, 2014 and 2013:

		<u>2014</u>	<u>2013</u>
Investments stated at fair value:			
Certificates of deposit, savings, and money funds	\$	24,514	23,576
U.S. government securities and sovereign debt		36,750	34,952
State government securities		419	804
Local government securities		870	1,079
International bonds		29,507	28,279
Corporate bonds		65,497	63,984
Common stock		466,183	374,396
Mutual funds – equity		111,775	118,817
Mutual funds – fixed income		141,126	138,354
Real estate funds		3,191	4,780
Limited partnerships		658,090	530,660
Preferred stock		2,253	1,411
Investments stated at other than fair value:			
Real estate		55,644	53,727
Real estate mortgage and contracts		4,449	2,418
Other		3,226	4,132
Cash value of life insurance		2,646	2,683
Annuity contracts		<u>158</u>	<u>158</u>
	\$	<u><u>1,606,298</u></u>	<u><u>1,384,210</u></u>

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Temporary investments stated at fair value:		
U.S. Treasuries	\$ 173,503	193,864
Certificates of deposit	1,539	6,029
State government securities	38,935	23,345
Local government securities	45,701	38,008
Corporate bonds	111,969	90,611
Temporary investments stated at other than fair value:		
Real estate	1,960	1,275
	<u>\$ 373,607</u>	<u>353,132</u>

The estimated value of real estate funds and limited partnerships 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, 2014 and 2013:

	<u>2014</u>			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>* Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Domestic equities	\$ 173,946	—	m/q	1–90 days
International equities	285,358	—	m/q	1–90 days
Commodities	30,189	—	m/q	1–90 days
Private equity/venture capital	13,438	28,509	N/A	N/A
Real asset funds	10,028	10,063	N/A	N/A
Hedge funds:				
Domestic long/short	33,575	—	q/sa/a	90–360 days
Global long/short	19,958	—	q/sa/a	90–360 days
Multiple strategies	62,732	—	q/sa/a	90–360 days
Credit strategies	32,057	—	q/sa/a	90–360 days
	<u>\$ 661,281</u>	<u>38,572</u>		

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

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Included in hedge funds above, are two funds with rolling redemption periods which as of June 30, 2014, approximately \$20 million cannot be redeemed without fees for a period of approximately 18 months. For private equity/venture capital and real asset funds, these investments cannot be redeemed with the investees, but instead the Foundation will receive distributions through the liquidation of the underlying assets of the investees. At June 30, 2014, the Foundation expects these funds to liquidate over the next 3–10 years.

	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
	<u>\$ 535,440</u>	<u>31,012</u>		

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

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.

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(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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Gross amount due in:		
One year or less	\$ 91,721	65,932
One to five years	163,721	151,373
More than five years	40,121	30,979
	<u>295,563</u>	<u>248,284</u>
Less discount to present value	35,370	27,534
	<u>260,193</u>	<u>220,750</u>
Less allowance for doubtful accounts	7,806	6,622
	<u>\$ 252,387</u>	<u>214,128</u>

The discount will be recognized as contribution income in years 2015 through 2042.

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.

(5) Property and Equipment

Property and equipment at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Property	\$ 1,570	1,692
Leasehold improvements	3,304	3,300
Aircraft	—	4,177
Automobiles	336	307
Furniture, equipment, and software	7,731	7,285
	<u>12,941</u>	<u>16,761</u>
Less accumulated depreciation	8,245	11,176
Net property and equipment	<u>\$ 4,696</u>	<u>5,585</u>

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(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, 2014 and 2013 are \$21,424 and \$20,966, 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Temporarily restricted – charitable trusts and annuities	\$ 31,256	28,564
Temporarily restricted – available for specific purposes	1,006,691	828,465
Permanently restricted – endowment	824,910	770,136
	<u>\$ 1,862,857</u>	<u>1,627,165</u>

The Foundation had unrestricted net assets of \$26,598 and \$3,226 at the end of 2014 and 2013, respectively. Net assets of \$172,875 and \$168,880 were released from donor restrictions during 2014 and 2013 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'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 allowing the Foundation to appropriate the expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent

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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

Endowment net asset composition by type of fund as of June 30, 2014 and 2013 is as follows:

	2014			Total net endowment assets
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ (6,802)	411,468	824,910	1,229,576
	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Donor-restricted endowment funds	\$ (26,793)	318,688	770,136	1,062,031

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Changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	2014			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Endowment net assets, beginning of year	\$ (26,793)	318,688	770,136	1,062,031
Contributions	—	16,173	46,692	62,865
Investment income, net of expenses	1,684	3,723	—	5,407
Realized and unrealized gains (losses), net	18,307	123,936	—	142,243
Amounts appropriated for expenditure	—	(42,970)	—	(42,970)
Reclassification due to change in donor intent	—	(8,082)	8,082	—
Endowment net assets, end of year	\$ <u>(6,802)</u>	<u>411,468</u>	<u>824,910</u>	<u>1,229,576</u>
	2013			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
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
Realized and unrealized gains (losses), net	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	\$ <u>(26,793)</u>	<u>318,688</u>	<u>770,136</u>	<u>1,062,031</u>

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(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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. The Foundation considers funds for which the fair value of the assets is less than the value of all original contributions to the fund to be “under water” funds. Deficiencies of this nature reported in unrestricted net assets were \$(6,803) and \$(26,793) as of June 30, 2014 and 2013, respectively. Funds of this nature result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs as deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(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.

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(9) Lease Commitments

The minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2014 are as follows:

2015	\$	1,057
2016		1,042
2017		1,042
2018		523
2019		439

(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 5.5% of salary, respectively, unless grandfathered in under previous terms, which allowed for a 6.5% match instead of the 5.5%. The Foundation contributions to the plans for the years ended June 30, 2014 and 2013 were \$789 and \$764, respectively.

(11) Contingencies and Commitments

The Foundation is involved in several legal actions in the ordinary course of business. 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 October 23, 2014, the date the consolidated financial statements were available to be issued.