KPMG

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2017 and 2016

(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 (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 29, 2017

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(Dollar amounts in thousands)

Assets		**2017**	**2016**
Assets:			
Cash and cash equivalents	$	40,780	27,100
Temporary investments		373,191	354,396
Pledges receivable		202,003	233,613
Other receivables		5,509	3,435
Investments		1,659,647	1,529,338
Property and equipment, net of depreciation		52,133	53,035
Total assets	$	2,333,263	2,200,917
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,232	1,404
University of Nebraska benefits payable		1,188	1,244
Scholarships, research, fellowships, and professorships payable		13,353	12,171
Note payable		16,971	16,382
Deferred annuities payable		19,167	18,779
Deposits held in custody for others		325,803	299,673
Deferred revenue		3,117	6,556
Total liabilities		384,831	356,209
Net assets:			
Unrestricted		13,507	(26,299)
Temporarily restricted		966,858	949,313
Permanently restricted		968,067	921,694
Total net assets		1,948,432	1,844,708
Total liabilities and net assets	$	2,333,263	2,200,917

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and gains:				
Gifts, bequests, and life insurance proceeds	$ 722	137,350	31,096	169,168
Investment income	34,207	5,258	—	39,465
Change in value of split-interest agreements	—	397	—	397
Realized and unrealized gains (losses), net	36,220	83,578	—	119,798
	71,149	226,583	31,096	328,828
Reclassification due to change in donor intent	—	(15,277)	15,277	—
Net assets released from restrictions	193,761	(193,761)	—	—
Total revenue and gains	264,910	17,545	46,373	328,828
Expenses:				
Payments to benefit the University:				
Academic support	54,910	—	—	54,910
Student assistance	22,405	—	—	22,405
Faculty assistance	6,861	—	—	6,861
Research	6,243	—	—	6,243
Museum, library, and fine arts	2,951	—	—	2,951
Campus and building improvements	99,813	—	—	99,813
Alumni associations	724	—	—	724
Total payments to benefit the University	193,907	—	—	193,907
Operating expenses:				
Salaries and benefits	19,225	—	—	19,225
General and administrative	5,054	—	—	5,054
Fund-raising, promotion, and development	2,363	—	—	2,363
Contributions to other charities	119	—	—	119
Paid to beneficiaries	2,730	—	—	2,730
Depreciation	1,706	—	—	1,706
Total operating expenses	31,197	—	—	31,197
Total expenses	225,104	—	—	225,104
Increase (decrease) in net assets	39,806	17,545	46,373	103,724
Net assets at beginning of year	(26,299)	949,313	921,694	1,844,708
Net assets at end of year	$ 13,507	966,858	968,067	1,948,432

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and gains:				
Gifts, bequests, and life insurance proceeds	$ 1,758	189,536	37,577	228,871
Investment income	27,934	4,884	—	32,818
Change in value of split-interest agreements	—	989	—	989
Realized and unrealized gains (losses), net	(41,726)	(6,740)	—	(48,466)
	(12,034)	188,669	37,577	214,212
Reclassification due to change in donor intent	—	(2,879)	2,879	—
Net assets released from restrictions	204,885	(204,885)	—	—
Total revenue and gains	192,851	(19,095)	40,456	214,212
Expenses:				
Payments to benefit the University:				
Academic support	55,331	—	—	55,331
Student assistance	26,327	—	—	26,327
Faculty assistance	5,731	—	—	5,731
Research	9,123	—	—	9,123
Museum, library, and fine arts	2,729	—	—	2,729
Campus and building improvements	106,342	—	—	106,342
Alumni associations	796	—	—	796
Deferred compensation	1	—	—	1
Total payments to benefit the University	206,380	—	—	206,380
Operating expenses:				
Salaries and benefits	18,374	—	—	18,374
General and administrative	6,157	—	—	6,157
Fund-raising, promotion, and development	2,194	—	—	2,194
Contributions to other charities	98	—	—	98
Paid to beneficiaries	2,958	—	—	2,958
Depreciation	1,085	—	—	1,085
Total operating expenses	30,866	—	—	30,866
Total expenses	237,246	—	—	237,246
Increase (decrease) in net assets	(44,395)	(19,095)	40,456	(23,034)
Net assets at beginning of year	18,096	968,408	881,238	1,867,742
Net assets at end of year	$ (26,299)	949,313	921,694	1,844,708

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets	$	103,724	(23,034)
Adjustments to reconcile increase (decrease) in net assets to			
net cash (used in) provided by operating activities:			
Depreciation		1,706	1,085
Net realized and unrealized losses (gains) on investments		(119,798)	48,466
Imputed interest expense		589	—
Contribution to permanently restricted endowment funds		(31,096)	(37,577)
Real and personal property contributions received		(119)	(19,645)
(Increase) decrease in:			
Pledges receivable		29,180	(23,942)
Other receivables		(2,053)	275
(Decrease) increase in:			
Accounts payable and accrued liabilities		3,828	416
University of Nebraska benefits payable		(56)	(1,106)
Scholarships, research, fellowships, and professorships payable		1,182	4,690
Deferred annuities payable		388	(1,319)
Deferred revenue		(3,439)	3,164
Net cash used in operating activities		(15,964)	(48,527)
Cash flows from investing activities:			
Purchase of temporary investments		(272,253)	(106,247)
Proceeds from sale and maturity of temporary investments		258,020	150,123
Net increase in student loans		(21)	(40)
Purchase of investments		(351,822)	(381,764)
Proceeds from sale and maturity of investments		362,998	381,718
Proceeds from sales of property and equipment		14	2,317
Purchase of property and equipment		(818)	(13,970)
Net cash provided by (used in) investing activities		(3,882)	32,137
Cash flows from financing activity:			
Contribution to permanently restricted endowment funds		33,526	42,351
Net cash provided by financing activity		33,526	42,351
Net increase in cash and cash equivalents		13,680	25,961
Cash and cash equivalents, beginning of year		27,100	998
Change in reporting unit, cash and cash equivalents		—	141
Cash and cash equivalents, end of year	$	40,780	27,100
Noncash investing and financing activities:			
Note payable for acquisition of property	$	—	16,382
Donation of property		—	19,136

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, UNF Investments, LLC, and UNF Charitable Gift Fund (UNFCGF). All significant intercompany accounts and transactions have been eliminated upon 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.

Revenue is 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 (decreases) 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 statements 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.

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) Gifts, Bequests, and Life Insurance Proceeds

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, or 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 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 which 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.

(Continued)

Temporary investments comprise short-term investments used to maintain liquidity, and are comprised mainly of 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 fund-raising operations. During the years ended June 30, 2017 and 2016, $20,465 and $20,225, respectively, was charged to temporarily restricted investment income and credited to unrestricted investment income in the consolidated statements of activities related to the management fee for endowment funds. Also included in unrestricted investment income in the consolidated statements of activities for the years ended June 30, 2017 and 2016, is $5,173 and $5,380, 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 $326 million and $300 million at June 30, 2017 and 2016 and were held on behalf of the University of Nebraska and other related entities.

(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.

(Continued)

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. The note payable was discounted at market rates and approximates fair value.

(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 incomes tax examinations for years prior to 2013. During 2017 and 2016, 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Fair Value Investments

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.

(Dollars in thousands)

- 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.

The tables below present the balances of assets measured at June 30, 2017 and 2016 at estimated fair value on a recurring basis.

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Certificates of deposit, savings, and money market funds	$ 15,228	15,148	80	—
U.S. government securities and sovereign debt	35,348	—	35,348	—
State government securities	156	—	156	—
Local government securities	124	—	124	—
International bonds	20,055	—	20,055	—
Corporate bonds	65,938	—	65,938	—
Common stock	504,238	477,074	—	27,164
Mutual funds – equity	83,356	83,356	—	—
Mutual funds – fixed income	133,266	133,266	—	—
Preferred stock	688	—	688	—
Commingled funds – public equity	282,828	—	282,828	—
Commingled funds – diversified real assets	35,098	—	35,098	—
Index funds – commodities	12,782	12,782	—	—
Index funds – public equity	219,964	219,964	—	—
Investments measured at net asset value (1):				
Hedge funds	154,095	—	—	—
Limited partnerships	62,878	—	—	—
Temporary investments:				
U.S. treasuries	110,880	—	110,880	—
Certificates of deposit and money funds	66,950	66,950	—	—
State government securities	37,241	—	37,241	—

(Dollars in thousands)

		2017			
		Total	**Level 1**	**Level 2**	**Level 3**
Local government securities	$	48,143	—	48,143	—
Corporate bonds		85,027		85,027	—
Exchange traded funds – income		24,926	24,926	—	—
Total	$	1,998,939	1,033,196	721,606	27,164

		2016			
		Total	**Level 1**	**Level 2**	**Level 3**
Investments:					
Certificates of deposit, savings, and money market funds	$	14,746	14,662	84	—
U.S. government securities and sovereign debt		30,691	—	30,691	—
State government securities		241	—	241	—
Local government securities		639	—	639	—
International bonds		18,498	—	18,498	—
Corporate bonds		72,085	—	72,085	—
Common stock		459,308	435,551	—	23,757
Mutual funds – equity		83,947	83,947	—	—
Mutual funds – fixed income		135,565	135,565	—	—
Preferred stock		564	—	564	—
Commingled funds – public equity		187,168	—	187,168	—
Commingled funds – diversified real assets		35,870	—	35,870	—
Index funds – commodities		14,081	14,081	—	—
Index funds – public equity		247,363	247,363	—	—
Investments measured at net asset value (1):					
Hedge funds		135,735	—	—	—
Limited partnerships		50,795	—	—	—
Temporary investments:					
U.S. treasuries		118,257	—	118,257	—
Certificates of deposit and money funds		892	157	735	—
State government securities		40,028	—	40,028	—
Local government securities		59,901	—	59,901	—
Corporate bonds		106,658	—	106,658	—
Exchange traded funds – equity		28,451	28,451	—	—
Total	$	1,841,483	959,777	671,419	23,757

(Dollars in thousands)

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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 years ended June 30, 2017 and 2016.

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, 2015	$	22,614
Net unrealized gains		1,143
Balance, June 30, 2016		23,757
Net unrealized gains		3,407
Balance, June 30, 2017	$	27,164

(3) Investments

Investments consist of the following at June 30, 2017 and 2016:

		2017	2016
Investments stated at fair value:			
Certificates of deposit, savings, and money market funds	$	15,228	14,746
U.S. government securities and sovereign debt		35,348	30,691
State government securities		156	241
Local government securities		124	639
International bonds		20,055	18,498
Corporate bonds		65,938	72,085
Common stock		504,238	459,308
Mutual funds – equity		83,356	83,947
Mutual funds – fixed income		133,266	135,565
Preferred stock		688	564
Limited partnerships		62,878	50,795
Commingled funds – public equity		282,828	187,168
Commingled funds – diversified real assets		35,098	35,870
Index funds – commodities		12,782	14,081
Index funds – public equity		219,694	247,363
Hedge funds		154,095	135,735

(Continued)

(Dollars in thousands)

		2017	2016
Investments stated at other than fair value:			
Real estate	$	26,009	32,573
Real estate mortgage and contracts		2,218	3,860
Other		2,660	2,687
Cash value of life insurance		2,830	2,764
Annuity contracts		158	158
	$	1,659,647	1,529,338

		2017	2016
Temporary investments stated at fair value:			
U.S. treasuries	$	110,880	118,257
Certificates of deposit and money market funds		66,950	892
State government securities		37,241	40,028
Local government securities		48,143	59,901
Corporate bonds		85,027	106,658
Exchange traded funds – income		24,926	—
Exchange traded funds – equity		—	28,451
Temporary investments stated at other than fair value:			
Real estate		24	209
	$	373,191	354,396

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, 2017 and 2016:

		2017			
		Fair value	Unfunded commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Private equity/venture capital	$	46,915	37,068	N/A	N/A
Natural resources		5,075	7,978	N/A	N/A
Real asset funds		10,888	12,183	N/A	N/A
Hedge funds:					
Domestic long/short		19,627	—	q/sa/a	90–360 days
Global long/short		26,802	—	q/sa/a	90–360 days

(Continued)

(Dollars in thousands)

	2017			
	Fair value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Multiple strategies	$ 64,575	—	q/sa/a	90–360 days
Credit strategies	43,091	—	q/sa/a	90–360 days
	$ 216,973	57,229		

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

Included in hedge funds above, are two funds with rolling redemption periods, which as of June 30, 2017, approximately $17 million cannot be redeemed without fees for a period of at least 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, 2017, the Foundation expects these funds to liquidate over the next 3–10 years.

	2016			
	Fair value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Private equity/venture capital	$ 32,920	39,310	N/A	N/A
Natural resources	6,311	9,983	N/A	N/A
Real asset funds	11,564	4,673	N/A	N/A
Hedge funds:				
Domestic long/short	26,922	—	q/sa/a	90–360 days
Global long/short	25,039	—	q/sa/a	90–360 days
Multiple strategies	52,325	—	q/sa/a	90–360 days
Credit strategies	31,449	—	q/sa/a	90–360 days
	$ 186,530	53,966		

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

Included in hedge funds above, are two funds with rolling redemption periods, which as of June 30, 2016, approximately $16 million cannot be redeemed without fees for a period of at least 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, 2016, the Foundation expects these funds to liquidate over the next 3–10 years.

(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, 2017 and 2016:

	2017	2016
Gross amount due in:		
One year or less	$ 84,634	71,456
One to five years	131,195	182,157
More than five years	12,385	15,830
	228,214	269,443
Less discount to present value	19,964	28,606
	208,250	240,837
Less allowance for doubtful accounts	6,247	7,224
	$ 202,003	233,613

The discount will be recognized as contribution income in years 2018 through 2044.

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, 2017 and 2016 are as follows:

		2017	2016
Land	$	8,314	8,314
Buildings		40,650	40,498
Leasehold improvements		3,578	3,566
Automobiles		153	152
Furniture, equipment, and software		10,170	9,795
		62,865	62,325
Less accumulated depreciation		10,732	9,290
Net property and equipment	$	52,133	53,035

(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, 2017 and 2016 are $19,167 and $18,779, 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. Included in temporarily and permanently restricted assets are the net assets of UNFCGF. The net assets of UNFCGF are restricted for distribution to qualified 501(c)(3) organizations, including the Foundation, at the request of the donor and approval by the Grants Committee of UNFCGF. 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.

(Continued)

(Dollars in thousands)

The amounts of the temporarily and permanently restricted net assets as of June 30, 2017 and 2016 are as follows:

		2017	2016
Temporarily restricted – charitable trusts and annuities	$	25,740	26,871
Temporarily restricted – available for specific purposes		941,118	922,442
Permanently restricted – endowment		968,067	921,694
	$	1,934,925	1,871,007

The Foundation had unrestricted net assets of $13,507 and $(26,299) at the end of 2017 and 2016, respectively. Net assets of $193,761 and $204,885 were released from donor restrictions during 2017 and 2016 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 5,100 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by U.S. 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 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

(Dollars in thousands)

(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, 2017 and 2016 is as follows:

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (31,875)	346,451	968,067	1,282,643
Board-designated endowment funds	26,573	—	—	26,573
Endowment totals	$ (5,302)	346,451	968,067	1,309,216

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (58,899)	304,084	921,694	1,166,879
Board-designated endowment funds	24,298	—	—	24,298
Endowment totals	$ (34,601)	304,084	921,694	1,191,177

(Dollars in thousands)

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Endowment net assets, beginning of year	$ (34,601)	304,084	921,694	1,191,177
Contributions	323	137,572	31,096	168,991
Investment income, net of expenses	—	7,774	—	7,774
Realized and unrealized gains (losses), net	27,797	(34,037)	—	(6,240)
Amounts appropriated for expenditure	1,179	(53,665)	—	(52,486)
Reclassification due to change in donor intent	—	(15,277)	15,277	—
Endowment net assets, end of year	$ (5,302)	346,451	968,067	1,309,216

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Endowment net assets, beginning of year	$ 7,391	344,195	881,038	1,232,624
Change in reporting entity	(22)	309	200	487
Subtotal	7,369	344,504	881,238	1,233,111
Contributions	1,430	14,381	37,577	53,388
Investment income, net of expenses	—	1,560	—	1,560
Realized and unrealized gains (losses), net	(42,238)	(3,735)	—	(45,973)
Amounts appropriated for expenditure	(1,162)	(49,747)	—	(50,909)
Reclassification due to change in donor intent	—	(2,879)	2,879	—
Endowment net assets, end of year	$ (34,601)	304,084	921,694	1,191,177

(Continued)

(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 4.25%, 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 $(31,875) and $(58,899) as of June 30, 2017 and 2016, 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 4.25% 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 minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2017 are as follows:

2018	$	849
2019		1,063
2020		1,073
2021		1,073
2022		1,073

(10) Notes Payable

During the year ended June 30, 2016, the Foundation entered into an agreement resulting in the acquisition of certain properties. The transaction included the purchase of certain properties valued at $47.5 million in exchange for an interest free note of $18 million. The note was recorded at its present value and the imputed interest expense is being recognized over the life of the loan. The $18 million is due in full in 2019. In addition, the Foundation agreed to lease certain space back over 36 months at a nominal amount. In connection with these transactions, in the year ended June 30, 2016, the Foundation recognized a net noncash contribution of $19.1 million. During the year ended June 30, 2017, the Foundation recognized imputed interest of $589 related to the interest free loan.

(11) 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 plan for the years ended June 30, 2017 and 2016 were $954 and $854, respectively.

(12) 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.

(13) Subsequent Events

In preparing the consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 29, 2017, the date the consolidated financial statements were available to be issued.