UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

KPMG LLP
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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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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 28, 2018

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UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Dollar amounts in thousands)

Assets		**2018**	**2017**
Assets:			
Cash and cash equivalents	$	48,769	40,780
Temporary investments		400,377	373,191
Pledges receivable		187,856	202,003
Other receivables		6,276	5,509
Investments		1,756,282	1,659,647
Property and equipment, net of depreciation		50,456	52,133
Total assets	$	2,450,016	2,333,263
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,952	5,232
University of Nebraska benefits payable		1,069	1,188
Scholarships, research, fellowships, and professorships payable		12,345	13,353
Note payable		17,559	16,971
Deferred annuities payable		16,644	19,167
Deposits held in custody for others		334,749	325,803
Deferred revenue		2,725	3,117
Total liabilities		391,043	384,831
Net assets:			
Unrestricted		26,514	13,507
Temporarily restricted		1,021,314	966,858
Permanently restricted		1,011,145	968,067
Total net assets		2,058,973	1,948,432
Total liabilities and net assets	$	2,450,016	2,333,263

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and gains:				
Gifts, bequests, and life insurance proceeds	$ 904	142,646	42,324	185,874
Investment income	35,156	(1,346)	—	33,810
Change in value of split-interest agreements	—	1,118	—	1,118
Realized and unrealized gains, net	11,617	91,361	—	102,978
	47,677	233,779	42,324	323,780
Reclassification due to change in donor intent	—	(754)	754	—
Net assets released from restrictions	178,569	(178,569)	—	—
Total revenue and gains	226,246	54,456	43,078	323,780
Expenses:				
Payments to benefit the University:				
Academic support	93,401	—	—	93,401
Student assistance	25,316	—	—	25,316
Faculty assistance	7,592	—	—	7,592
Research	6,244	—	—	6,244
Museum, library, and fine arts	2,894	—	—	2,894
Campus and building improvements	44,535	—	—	44,535
Alumni associations	570	—	—	570
Total payments to benefit the University	180,552	—	—	180,552
Operating expenses:				
Salaries and benefits	20,256	—	—	20,256
General and administrative	5,538	—	—	5,538
Fund-raising, promotion, and development	2,135	—	—	2,135
Contributions to other charities	173	—	—	173
Paid to beneficiaries	2,626	—	—	2,626
Depreciation	1,959	—	—	1,959
Total operating expenses	32,687	—	—	32,687
Total expenses	213,239	—	—	213,239
Increase in net assets	13,007	54,456	43,078	110,541
Net assets at beginning of year	13,507	966,858	968,067	1,948,432
Net assets at end of year	$ 26,514	1,021,314	1,011,145	2,058,973

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 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 Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	110,541	103,724
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Depreciation		1,959	1,706
Net realized and unrealized losses (gains) on investments		(102,978)	(119,798)
Imputed interest expense		588	589
Contribution to permanently restricted endowment funds		(42,324)	(31,096)
Real and personal property contributions received		(1,169)	(119)
(Increase) decrease in:			
Pledges receivable		13,264	29,180
Other receivables		(534)	(2,053)
(Decrease) increase in:			
Accounts payable and accrued liabilities		720	3,828
University of Nebraska benefits payable		(119)	(56)
Scholarships, research, fellowships, and professorships payable		(1,008)	1,182
Deferred annuities payable		(2,523)	388
Deferred revenue		(392)	(3,439)
Net cash used in operating activities		(23,975)	(15,964)
Cash flows from investing activities:			
Purchase of temporary investments		(576,386)	(272,253)
Proceeds from sale and maturity of temporary investments		540,392	258,020
Net increase in student loans		(233)	(21)
Purchase of investments		(402,740)	(351,822)
Proceeds from sale and maturity of investments		428,006	362,998
Proceeds from sales of property and equipment		6	14
Purchase of property and equipment		(288)	(818)
Net cash used in investing activities		(11,243)	(3,882)
Cash flows from financing activity:			
Contribution to permanently restricted endowment funds		43,207	33,526
Net cash provided by financing activity		43,207	33,526
Net increase in cash and cash equivalents		7,989	13,680
Cash and cash equivalents, beginning of year		40,780	27,100
Cash and cash equivalents, end of year	$	48,769	40,780

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 subsidiaries, 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 in accordance with U.S. generally accepted accounting principles.

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 hedge funds and limited partnerships, 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 net asset value of the respective company.

Real estate, mortgage contracts, 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 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, 2018 and 2017, $20,214 and $20,465, 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, 2018 and 2017 is $4,967 and $5,173, 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 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 $335 million and $326 million at June 30, 2018 and 2017 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.

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 2014. During 2018 and 2017, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting both for-profit and not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees, changes to unrelated business income, as well as their ability to advance refund bonds. In addition, tax-exempt entities may be impacted through certain for-profit subsidiaries and/or joint ventures based on the Act's provisions for tax rates, measurement of deferred taxes as well as other limitations on deductions. The Act's provisions may also impact donor incentives for charitable giving. Management is currently assessing the overall impact of the Act and its impact on the consolidated financial statements.

(j) Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP 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.

(k) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 provides a single model for recognizing revenue arising from contracts with customers and supersedes current revenue recognition guidance. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services and will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective. This ASU will become effective for the Foundation beginning in fiscal year 2020. The guidance permits entities to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Foundation is currently evaluating the impact the adoption will have on its consolidated financial statements and related disclosures. The Foundation has not yet selected a transition method nor has it determined the effect ASU No. 2014-09 will have on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Foundation is permitted to make an accounting policy election by class of underlying asset to recognize lease assets and lease liabilities. Further ASU 2016-02 requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Foundation to adopt the standard using a modified retrospective approach and adoption beginning in fiscal year 2020. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial position, statement of activities, and cash flows.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. The guidance changes how not-for-profit entities report net asset classes, expenses, investment return, and liquidity in their financial statements. This ASU will become effective for the Foundation beginning in fiscal year 2019. Retrospective application is required in the year of adoption. The Foundation is currently evaluating the impact on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard.

(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.
- 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.

(Dollars in thousands)

The Foundation maximizes 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 and liabilities measured at June 30, 2018 and 2017 at estimated fair value on a recurring basis:

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments:				
Certificates of deposit, savings, and money market funds	$ 9,750	9,714	36	—
U.S. government securities and sovereign debt	38,311	—	38,311	—
International bonds	19,479	—	19,479	—
Corporate bonds	65,997	—	65,997	—
Common stock	515,833	485,252	—	30,581
Mutual funds – equity	86,528	86,528	—	—
Mutual funds – fixed income	126,854	126,854	—	—
Preferred stock	655	—	655	—
Commingled funds – public equity	335,843	—	335,843	—
Commingled funds – diversified real assets	38,929	—	38,929	—
Index funds – commodities	16,584	16,584	—	—
Index funds – public equity	209,493	209,493	—	—
Investments measured at net asset value (1):				
Hedge funds	169,380	—	—	—
Limited partnerships	89,870	—	—	—
Temporary investments:		—	—	—
U.S. treasuries	102,463	—	102,463	—
Certificates of deposit and money funds	546	46	500	—
State government securities	26,212	—	26,212	—
Local government securities	30,687	—	30,687	—
Corporate bonds	138,861	—	138,861	—
Exchange traded funds – income	101,584	101,584	—	—
Total	$ 2,123,859	1,036,055	797,973	30,581

(Dollars in thousands)

		2018		
	Total	**Level 1**	**Level 2**	**Level 3**
Liabilities:				
Annuities payable	$ 16,644	—	16,644	—

		2017		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
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	219,694	219,694	—	—
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	—
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

(Continued)

(Dollars in thousands)

	2017			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Annuities payable	$ 19,167	—	19,167	—

(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, 2018 and 2017.

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, 2016	$ 23,757
Net unrealized gains	3,407
Balance, June 30, 2017	27,164
Net unrealized gains	3,417
Balance, June 30, 2018	$ 30,581

(Dollars in thousands)

(3) Investments

Investments consist of the following at June 30, 2018 and 2017:

	2018	2017
Investments stated at fair value:		
Certificates of deposit, savings, and money market funds	$ 9,750	15,228
U.S. government securities and sovereign debt	38,311	35,348
State government securities	—	156
Local government securities	—	124
International bonds	19,479	20,055
Corporate bonds	65,997	65,938
Common stock	515,833	504,238
Mutual funds – equity	86,528	83,356
Mutual funds – fixed income	126,854	133,266
Preferred stock	655	688
Limited partnerships	89,870	62,878
Commingled funds – public equity	335,843	282,828
Commingled funds – diversified real assets	38,929	35,098
Index funds – commodities	16,584	12,782
Index funds – public equity	209,493	219,694
Hedge funds	169,380	154,095
Investments stated at other than fair value:		
Real estate	27,627	26,009
Real estate mortgage and contracts	793	2,218
Other	1,904	2,660
Cash value of life insurance	2,294	2,830
Annuity contracts	158	158
	$ 1,756,282	1,659,647

(Continued)

(Dollars in thousands)

		2018	2017
Temporary investments stated at fair value:			
U.S. treasuries	$	102,463	110,880
Certificates of deposit and money market funds		546	66,950
State government securities		26,212	37,241
Local government securities		30,687	48,143
Corporate bonds		138,861	85,027
Exchange traded funds – income		—	24,926
Exchange traded funds – equity		101,584	—
Temporary investments stated at other than fair value:			
Real estate		24	24
	$	400,377	373,191

The estimated value of hedge 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, 2018 and 2017:

		2018			
		Net asset value	Unfunded commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Private equity/venture capital	$	68,285	100,814	N/A	N/A
Natural resources		9,012	19,435	N/A	N/A
Real estate funds		12,573	17,064	N/A	N/A
Hedge funds:					
Domestic long/short		38,472	—	q/sa/a	90–360 days
Global long/short		9,412	—	q/sa/a	90–360 days
Multiple strategies		87,306	—	q/sa/a	90–360 days
Credit strategies		34,190	—	q/sa/a	90–360 days
	$	259,250	137,313		

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

(Dollars in thousands)

Included in hedge funds above, is one fund with a rolling redemption period, which as of June 30, 2018, approximately $8 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, 2018, the Foundation expects these funds to liquidate over the next 3–10 years.

	2017			
	Net asset 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 estate 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
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.

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.

(Dollars in thousands)

(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, 2018 and 2017:

		2018	2017
Gross amount due in:			
One year or less	$	65,891	84,634
One to five years		139,425	131,195
More than five years		7,397	12,385
		212,713	228,214
Less discount to present value		19,047	19,964
		193,666	208,250
Less allowance for doubtful accounts		5,810	6,247
	$	187,856	202,003

The discount will be recognized as contribution income in years 2019 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.

(5) Property and Equipment

Property and equipment at June 30, 2018 and 2017 are as follows:

		2018	2017
Land	$	8,314	8,314
Buildings		40,660	40,650
Leasehold improvements		3,578	3,578
Automobiles		168	153
Furniture, equipment, and software		10,362	10,170
		63,082	62,865
Less accumulated depreciation		12,626	10,732
Net property and equipment	$	50,456	52,133

(Dollars in thousands)

(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. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rates used for the establishment of the liability was 2.8% for the years 2018 and 2017. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. Liabilities associated with these agreements as of June 30, 2018 and 2017 are $16,644 and $19,167, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position. Annuity obligations are adjusted annual for actuarial changes in life expectancy. The increases and decreases to the liability are reflected as temporarily restricted or unrestricted change in the value of split-interest agreements, which is consistent with the method used to initially record the contribution.

(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, the Medical Center in Omaha, and Nebraska Medicine. 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.

The amounts of the temporarily and permanently restricted net assets as of June 30, 2018 and 2017 are as follows:

		2018	2017
Temporarily restricted – charitable trusts and annuities	$	24,714	25,740
Temporarily restricted – available for specific purposes		996,600	941,118
Permanently restricted – endowment		1,011,145	968,067
	$	2,032,459	1,934,925

The Foundation had unrestricted net assets of $26,514 and $13,507 at the end of 2018 and 2017, respectively. Net assets of $178,569 and $193,761 were released from donor restrictions during 2018 and 2017 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 5,300 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. GAAP, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(Dollars in thousands)

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

(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, 2018 and 2017 is as follows:

		2018			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$	(21,151)	381,466	1,011,145	1,371,460
Board-designated endowment funds		27,047	—	—	27,047
Endowment totals	$	5,896	381,466	1,011,145	1,398,507

(Dollars in thousands)

	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

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	2018			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Endowment net assets, beginning of year	$ (5,302)	346,451	968,067	1,309,216
Contributions	904	5,514	42,324	48,742
Investment income, net of expenses	—	4,869	—	4,869
Realized and unrealized gains, net	11,482	79,800	—	91,282
Amounts appropriated for expenditure	(1,188)	(54,414)	—	(55,602)
Reclassification due to change in donor intent	—	(754)	754	—
Endowment net assets, end of year	$ 5,896	381,466	1,011,145	1,398,507

(Dollars in thousands)

	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

(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 6.0% per year net of investment management fees and investment operations expenses, when measured over a 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 $(21,151) and $(31,875) as of June 30, 2018 and 2017, 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.

(Dollars in thousands)

(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 of the unitized endowment shares. In establishing this policy and in the annual review of the policy, the Foundation considers 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.

(9) Lease Commitments

The minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2018 are as follows:

2019	$	1,107
2020		1,101
2021		1,101
2022		1,101
2023		667
Thereafter		150

(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 years ended June 30, 2018 and 2017, the Foundation recognized imputed interest of $588 and $589, respectively, 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, 2018 and 2017 were $1,048 and $954, 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 subsequent events for potential recognition or disclosure through September 28, 2018, the date the consolidated financial statements were available to be issued.