KPMG

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019, 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 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, 2020 and 2019, 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 25, 2020

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(Dollar amounts in thousands)

Assets		**2020**	**2019**
Assets:			
Cash and cash equivalents	$	65,520	33,092
Temporary investments		579,128	472,927
Pledges receivable		201,560	202,503
Other receivables		5,350	6,973
Investments		1,741,751	1,797,556
Property and equipment, net of depreciation		4,389	4,587
Total assets	$	2,597,698	2,517,638
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,700	4,944
University of Nebraska payable		29,790	21,191
Deferred annuities payable		15,067	16,448
Deposits held in custody for others		327,108	339,491
Total liabilities		377,665	382,074
Net assets:			
Without donor restrictions		53,145	54,990
With donor restrictions		2,166,888	2,080,574
Total net assets		2,220,033	2,135,564
Total liabilities and net assets	$	2,597,698	2,517,638

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2020

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Revenue and gains:				
Gifts, bequests, and life insurance proceeds	$	1,637	243,332	244,969
Investment income (loss)		40,485	(3,812)	36,673
Change in value of split-interest agreements		—	1,784	1,784
Realized and unrealized gains (loss), net		12,366	(8,444)	3,922
Total revenue and gains		54,488	232,860	287,348
Expenses:				
Payments to benefit the University:				
Academic support		63,811	—	63,811
Student assistance		30,275	—	30,275
Faculty assistance		6,651	—	6,651
Research		7,012	—	7,012
Museum, library, and fine arts		1,529	—	1,529
Campus and building improvements		59,746	—	59,746
Alumni associations		570	—	570
Total payments to benefit the University		169,594	—	169,594
Operating expenses:				
Salaries and benefits		22,061	—	22,061
Office expense		1,148	—	1,148
Office rent and utilities		1,812	—	1,812
Professional services		1,350	—	1,350
Dues and subscriptions		307	—	307
Travel and conferences		856	—	856
Cultivation expense		1,386	—	1,386
Miscellaneous expense		1,081	—	1,081
Contributions to other charities		108	—	108
Paid to beneficiaries		2,329	—	2,329
Depreciation		847	—	847
Total operating expenses		33,285	—	33,285
Total expenses		202,879	—	202,879
Other changes in net assets:				
Net assets released from restrictions		146,546	(146,546)	—
Total other changes in net assets		146,546	(146,546)	—
Increase (decrease) in net assets		(1,845)	86,314	84,469
Net assets at beginning of year		54,990	2,080,574	2,135,564
Net assets at end of year	$	53,145	2,166,888	2,220,033

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2019

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Revenue and gains:			
Gifts, bequests, and life insurance proceeds	$ 885	234,883	235,768
Investment income (loss)	38,219	(2,954)	35,265
Change in value of split-interest agreements	—	(36)	(36)
Realized and unrealized gains, net	740	45,178	45,918
Total revenue and gains	39,844	277,071	316,915
Expenses:			
Payments to benefit the University:			
Academic support	49,113	—	49,113
Student assistance	25,883	—	25,883
Faculty assistance	6,913	—	6,913
Research	6,740	—	6,740
Museum, library, and fine arts	3,931	—	3,931
Campus and building improvements	106,541	—	106,541
Alumni associations	570	—	570
Total payments to benefit the University	199,691	—	199,691
Operating expenses:			
Salaries and benefits	21,123	—	21,123
Office expense	1,079	—	1,079
Office rent and utilities	1,777	—	1,777
Professional services	1,353	—	1,353
Dues and subscriptions	170	—	170
Travel and conferences	1,097	—	1,097
Cultivation expense	1,426	—	1,426
Miscellaneous expense	286	—	286
Contributions to other charities	8,068	—	8,068
Paid to beneficiaries	2,311	—	2,311
Depreciation	1,943	—	1,943
Total operating expenses	40,633	—	40,633
Total expenses	240,324	—	240,324
Other changes in net assets:			
Net assets released from restrictions	207,805	(207,805)	—
Total other changes in net assets	207,805	(207,805)	—
Increase in net assets	7,325	69,266	76,591
Net assets at beginning of year	47,665	2,011,308	2,058,973
Net assets at end of year	$ 54,990	2,080,574	2,135,564

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(Dollars in thousands)

		2020	2019
Cash flows from operating activities:			
Increase in net assets	$	84,469	76,591
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation		847	1,943
Net realized and unrealized gains on investments, net		(3,922)	(45,918)
Imputed interest expense		—	441
Contribution to endowment funds		(59,443)	(39,189)
Real and personal property contributions received		(2,291)	(252)
Noncash donation to the University of Nebraska		89	44,241
(Increase) decrease in:			
Pledges receivable		3,172	(8,512)
Other receivables		2,002	(960)
(Decrease) increase in:			
Accounts payable and accrued liabilities		756	2,249
University of Nebraska payable		8,599	4,520
Deferred annuities payable		(1,381)	(196)
Deferred revenue		—	(2,725)
Net cash provided by operating activities		32,897	32,233
Cash flows from investing activities:			
Purchase of temporary investments		(1,377,176)	(173,467)
Proceeds from sale and maturity of temporary investments		1,290,113	114,480
Net increase (decrease) in student loans		(380)	263
Purchase of investments		(934,795)	(367,317)
Proceeds from sale and maturity of investments		965,293	363,392
Purchase of property and equipment		(738)	(315)
Net cash used in investing activities		(57,683)	(62,964)
Cash flows from financing activity:			
Payment on notes payable		—	(18,000)
Contribution to endowment funds		57,214	33,054
Net cash provided by financing activities		57,214	15,054
Net increase (decrease) in cash and cash equivalents		32,428	(15,677)
Cash and cash equivalents, beginning of year		33,092	48,769
Cash and cash equivalents, end of year	$	65,520	33,092
Supplemental disclosure of cash flow information:			
Noncash property donation to the University of Nebraska	$	89	44,241

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.

The University of Nebraska (the University) considers the University of Nebraska Foundation a Component Unit under Government Accounting Standards Board Statements and therefore includes the audited financial statements of the Foundation in the University's Comprehensive Annual Financial Reports.

(b) Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

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:

- *Net assets without donor restrictions* – Net assets and contributions not subject to donor-imposed stipulations.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations outlining a specific use or time restriction, which can be temporary or perpetual in nature. After the donor-imposed time or purpose restriction is satisfied or after the Foundation's board appropriates their expenditures in the case of gains and income realized on endowment funds maintained in perpetuity, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported within the consolidated statements of activities as net assets released from restrictions.

Revenue is reported as increases in net assets without donor restrictions unless use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and any other assets or liabilities are reported as increases (decreases) in net assets without donor restrictions, unless their use is limited by donor stipulation or by laws. Expirations of temporary restrictions on net assets with donor restrictions (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. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the contribution as a component of net assets without donor restrictions. 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) 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.

(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 contributions with donor restriction.

The Foundation recognizes a receivable and revenue at the time a pledge is made by the donor if the pledge is verifiable, measurable, probable of collection, and meets all applicable eligibility requirements. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and reported as additional contribution revenue in accordance with donor-imposed restrictions, if any. The discount rate utilized for 2020 and 2019 was 6%. In addition, pledges are reported net of an allowance, which includes specific reserves for items that are past due in payments as well as a general reserve set at 3% of pledges receivable balance.

Conditional promises to give are not recorded until one or more barriers are overcome for the recipient to be entitled to the assets transferred and there is either a right of return for the transferred assets or a right of release of the promisor’s obligation to transfer assets.

Included in gifts, bequests, and life insurance proceeds, is an advancement fee assessed on incoming expendable contributions, with certain predetermined exclusions, effective March 1, 2020. During the year ended June 30, 2020 the fee was $182 and included as net assets without donor restriction gifts, bequests, and life insurance proceeds within the consolidated statement of activities.

(e) 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 and temporary investment portfolios.

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.

(f) Investments and Temporary Investments

Investments and temporary investments in equity securities with readily determinable fair values and debt securities are reported at fair value. For alternative investments in funds that do not have readily determinable fair values, including certain 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 alternative investments are valued based upon the most recent net asset value or capital account information available from the fund manager, adjusted for subsequent cash flows as necessary. The Foundation applies the practical expedient to its investments on an investment-by-investment basis and consistently with the Foundation's entire position in a particular investment unless it is probable that the Foundation will sell a portion of an investment at an amount different from the net asset valuation.

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 net assets without donor restrictions, unless their use is restricted by donor stipulation or by law.

Investment income is comprised of dividends, interest, and other investment income and is shown net of external investment management and custody fees. Included in investment income is a management fee charged by the Foundation to endowment accounts within each net asset class for which the Foundation manages investments. This management fee is calculated annually based on the market value of the endowment and is charged ratably over the year on a monthly basis. These fees are used to support the Foundation's management and fund-raising operations. During the years ended June 30, 2020 and 2019, $20,964 and $21,806, respectively, was charged to donor restricted investment income and credited to investment income without donor restriction in the consolidated statements of activities related to the management fee for endowment funds. Also, included in investment income without donor restriction for the years ended June 30, 2020 and 2019 is $5,312 and $5,272, respectively, of a management fee charged by the Foundation to agency funds, is calculated annually based on the market value of the agency funds and is charged ratably over the year on a monthly basis.

(g) Deposits Held in Custody for Others

Deposits held for others represent funds held in a fiduciary capacity. The assets and corresponding liability for these funds are reflected on the consolidated statements of financial position, however, the transactional activity of these funds is not reflected in the consolidated statements of activities as the Foundation is acting as an agent for these funds. Such funds approximated $327 million and

$339 million at June 30, 2020 and 2019, respectively, and are recorded as a liability on the consolidated statements of financial position. These funds are held on behalf of the University and other related entities.

(h) Deferred Annuities Payable

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 2020 and 2019. 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, 2020 and 2019 are $15,067 and $16,448, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position. Annuity obligations are adjusted annually for actuarial changes in life expectancy. The increases and decreases to the liability are reflected as change in the value of split interest agreements with donor restriction in the consolidated statements of activities, which is consistent with the method used to initially record the contribution.

(i) 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.

(j) Income Taxes

The Foundation has been recognized as a not-for-profit corporation by the Internal Revenue Service as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the 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 2016. During 2020 and 2019, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

(k) New Accounting Pronouncements Recently Adopted

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. The Foundation adopted the new standard on July 1, 2019, using the modified retrospective transition method. There were no adjustments to the July 1, 2019 consolidated

(Continued)

statement of financial position for the adoption of the new revenue standard. The ASU did not have a material impact on the timing or amount of revenue recorded by the Foundation for the year ended June 30, 2020. The new revenue recognition standard would not have materially impacted the revenue recorded in 2019 had the new revenue recognition standard been utilized in 2019.

In November 2016, the FASB issued ASU 2016-18, *Restricted cash,* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Foundation adopted the standard on July 1, 2019 using the retrospective transition method to each period presented. The adoption had no material impacts on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides assistance in determining if a transaction should be accounted for as a contribution or as an exchange, as well as providing guidance in determining whether a contribution is conditional. The guidance should be applied on a modified prospective basis, although a retrospective application is permitted. The Foundation adopted the standard on July 1, 2019 on a modified prospective basis. The adoption of this ASU did not have a material impact on its consolidated financial statements.

(l) New Accounting Pronouncements Not Yet Adopted

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 2022. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

(2) Fair Value Investments

The Foundation uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

(Dollars in thousands)

- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The tables below present the balances of assets and liabilities measured at June 30, 2020 and 2019 at estimated fair value on a recurring basis:

	2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments:				
Certificates of deposit, savings,				
and money market funds	$ 6,550	6,550	—	—
U.S. government securities and				
sovereign debt	32,669	—	32,669	—
Corporate bonds	58,179	—	58,179	
Common stock	186,320	151,596	—	34,724
Mutual funds – equity	368,311	368,311	—	—
Mutual funds – fixed income	27,119	27,119	—	—
Preferred stock	501	—	501	—
Commingled funds – public equity	314,579	—	314,579	—
Commingled funds – diversified			—	
real assets	32,103	—	32,103	—
Index funds – commodities	9,732	9,732	—	—
Index funds – public equity	429,528	429,528	—	—
Investments measured at net asset value [1]:				
Hedge funds	77,584	—	—	—
Limited partnerships	165,737	—	—	—
Temporary investments:				
U.S. treasuries	61,336	—	61,336	—
Certificates of deposit and money				
funds	67,083	38,158	28,925	—
State government securities	30,201	—	30,201	—
Local government securities	50,456	—	50,456	—
Corporate bonds	224,531	—	224,531	—
Exchange traded funds – equity	145,521	145,521	—	—
Total	$ 2,288,040	1,176,515	833,480	34,724

(Dollars in thousands)

	2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments:				
Certificates of deposit, savings, and money market funds	$ 11,658	11,658	—	—
U.S. government securities and sovereign debt	35,173	—	35,173	—
International bonds	18,724	—	18,724	—
Corporate bonds	69,337	—	69,337	—
Common stock	459,786	425,370	—	34,416
Mutual funds – equity	147,842	147,842	—	—
Mutual funds – fixed income	130,383	130,383	—	—
Preferred stock	530	—	530	—
Commingled funds – public equity	332,924	—	332,924	—
Commingled funds – diversified real assets	37,190	—	37,190	—
Index funds – commodities	14,674	14,674	—	—
Index funds – public equity	209,088	209,088	—	—
Investments measured at net asset value (1):				
Hedge funds	165,963	—	—	—
Limited partnerships	131,139	—	—	—
Temporary investments:				
U.S. treasuries	119,464	—	119,464	—
Certificates of deposit and money funds	9,515	8,770	745	—
State government securities	27,357	—	27,357	—
Local government securities	29,384	—	29,384	—
Corporate bonds	165,050	—	165,050	—
Exchange traded funds – equity	122,133	122,133	—	—
Total	$ 2,237,314	1,069,918	835,878	34,416

(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, 2020 and 2019.

The fair values of the financial instruments shown in the above tables represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Certifications of deposit, savings, and money market funds: Money market are recorded at fair value using quoted market prices. These are classified as Level 1 as they are traded in an active market for which closing prices are readily available. Certificates of deposit are reported at face value plus accrued interest at the reporting date. These investments are classified as Level 2.

Corporate bonds, International bonds, U.S. Treasuries, State Government Securities, Local Government Securities, and U.S. government securities and sovereign debt obligations: Investments include fixed-income securities comprised of U.S. government securities, sovereign debt, and corporate bonds. Actively traded fixed-income securities are classified as Level 1 and valued based upon observable market prices on the reporting date. When quoted prices of identical investment securities in active markets are not available, the fair values for these investment securities are obtained primarily from pricing services; one evaluated price is received for each security. The fair values provided by the pricing services are estimated using matrix pricing or other pricing models, where the inputs are based on observable market inputs or recent trades of similar securities. Such investment securities are generally classified as Level 2.

Common stock, mutual funds, index funds, and exchange traded funds: These securities are mainly measured using quoted market prices at the reporting date multiplied by the quantity held. These are classified as Level 1 securities as they are traded in an active market for which closing prices are readily available. Included within common stock is closely held stock valued at $34,724 and $34,416, respectively, as of June 30, 2020 and 2019. The closely held stock is classified as Level 3 as these are securities without readily observable inputs or measures. There were no purchases or sales of closely held stock during 2020 or 2019.

Commingled funds: Commingled funds including public equity and diversified real asset funds have readily determinable fair values but are not traded on national exchanges. The balance of these funds are private funds where the fund stands ready to transact with investors at net asset value at certain time periods under the fund governing agreements. Price quotes for the underlying assets are available for identical assets but in markets that are not considered active. While trades occur, they are usually limited to once a month and as such limit the number of investors. The investors involved generally have longer term horizons and as such they are not considered to be active markets. These funds are classified as Level 2.

(Dollars in thousands)

(3) Investments

Investments consist of the following at June 30, 2020 and 2019:

	2020	2019
Investments stated at fair value:		
Certificates of deposit, savings, and money market funds	$ 6,550	11,658
U.S. government securities and sovereign debt	32,669	35,173
International bonds	—	18,724
Corporate bonds	58,179	69,337
Common stock	186,320	459,786
Mutual funds – equity	368,311	147,842
Mutual funds – fixed income	27,119	130,383
Preferred stock	501	530
Limited partnerships	165,737	131,139
Commingled funds – public equity	314,579	332,924
Commingled funds – diversified real assets	32,103	37,190
Index funds – commodities	9,732	14,674
Index funds – public equity	429,528	209,088
Hedge funds	77,584	165,963
Investments stated at other than fair value:		
Real estate	26,712	27,435
Real estate mortgage and contracts	1,085	808
Other	2,062	2,062
Cash value of life insurance	2,980	2,840
	$ 1,741,751	1,797,556

	2020	2019
Temporary investments stated at fair value:		
U.S. treasuries	$ 61,336	119,464
Certificates of deposit and money market funds	67,083	9,515
State government securities	30,201	27,357
Local government securities	50,456	29,384
Corporate bonds	224,531	165,050
Exchange traded funds – equity	145,521	122,133
Temporary investments stated at other than fair value:		
Real estate	—	24
	$ 579,128	472,927

(Dollars in thousands)

The estimated value of hedge funds and limited partnerships was provided by the respective fund managers. 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, 2020 and 2019:

	2020			
	Net asset value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Private equity/venture capital	$ 126,406	150,820	N/A	N/A
Natural resources	16,548	20,235	N/A	N/A
Real estate funds	22,783	53,527	N/A	N/A
Hedge funds:				
Domestic long/short	13,869	—	q/sa/a	90–360 days
Global long/short	13,846	—	q/sa/a	90–360 days
Multiple strategies	27,996	—	q/sa/a	90–360 days
Credit strategies	21,873	—	q/sa/a	90–360 days
	$ 243,321	224,582		

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

	2019			
	Net asset value	**Unfunded commitments**	*** Redemption frequency (if currently eligible)**	**Redemption notice period**
Private equity/venture capital	$ 105,336	129,598	N/A	N/A
Natural resources	11,531	12,867	N/A	N/A
Real estate funds	14,272	10,341	N/A	N/A
Hedge funds:				
Domestic long/short	28,805	—	q/sa/a	90–360 days
Global long/short	31,252	—	q/sa/a	90–360 days
Multiple strategies	70,880	—	q/sa/a	90–360 days
Credit strategies	35,026	—	q/sa/a	90–360 days
	$ 297,102	152,806		

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

The Foundation invests a portion of its assets in private investment limited partnerships that have predetermined fund lives. Generally, these funds have lives of up to 10 years and in certain cases may be extended for an additional 1–2 years upon approval by a majority of limited partners. Although capital may be returned to limited partners at any time during the fund life, it is generally anticipated that such distributions will commence several years into the fund life with a target of all capital being returned to investors by the end of the term. Each specific limited partnership is governed by an individual Limited Partnership Agreement which details liquidity terms and other provisions.

(Dollars in thousands)

Liquidity terms for hedge fund investments are governed by each specific funds' terms as outlined in each respective set of governing fund documents. On an aggregated bases, it is anticipated that 90% of capital would be returned within 12 months of redemption action, with the remainder of assets being returned within 36 months.

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 are due to be collected as follows as of June 30, 2020 and 2019:

		2020	2019
Gross amount due in:			
One year or less	$	83,673	75,523
One to five years		135,431	144,182
More than five years		7,622	9,049
		226,726	228,754
Less discount to present value		18,932	19,988
		207,794	208,766
Less allowance for doubtful accounts		6,234	6,263
	$	201,560	202,503

The discount will be recognized as contribution income in years 2021 through 2044.

In addition, the Foundation has been informed of intentions to give in the form of possible future bequests and conditional pledges, in the amount of $95,000 and $45,000 at June 30, 2020 and 2019, respectively. These amounts are not included in pledges receivable as they do not constitute unconditional promises to give. It is not practicable to estimate the net realizable value of these intentions to contribute or the period over which they will be collected.

(Dollars in thousands)

(5) Net Assets with Donor Restrictions

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. Net assets with donor restrictions include gifts contributed for a specified period or until the occurrence of some future event or unspent earnings on endowed funds.

The amounts of net assets with donor restrictions as of June 30, 2020 and 2019 are as follows:

		2020	2019
Charitable trusts and annuities	$	18,877	21,957
Expendable funds for specific purposes		965,219	828,610
Permanent endowment pool subject to spending policy		1,182,792	1,230,007
	$	2,166,888	2,080,574

The Foundation had net assets without donor restrictions of $53,145 and $54,990 at the end of 2020 and 2019, respectively of which $28,478 and $28,030 was board designated. Net assets of $146,546 and $207,805 were released from donor restrictions during 2020 and 2019 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(6) Financial Assets and Liquidity Resources

As of June 30, 2020, the Foundation's average month's operating cash on hand of approximately 11 months, based on normal expenditures.

The following table reflects the Foundation's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditure because of contractual or donor-imposed restrictions within one year of the financial position date. Financial assets are considered unavailable when subject to donor-imposed restrictions.

		2020	2019
Financial assets:			
Cash and cash equivalents	$	65,520	33,092
Temporary investments		579,128	472,927
Pledges		201,560	202,503
Investments		1,741,751	1,797,556
Financial assets, at the end of the year		2,587,959	2,506,078

(Dollars in thousands)

		2020	2019
Less those unavailable for general expenditure within one year due to:			
Permanent endowment pool subject to spending policy	$	1,182,792	1,230,007
Deposits held in custody for others		327,108	339,491
Donor funds available for specific purpose		984,096	850,567
		2,493,996	2,420,065
	$	93,963	86,013

The Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligation come due.

(7) Functional Expenses

The Foundation solicits and distributes funds for the benefit of the University. Expenses related to those activities providing these services for the years ended June 30, 2020 and 2019 are as follows:

The Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligation come due.

		2020			
		Program support	Management and general	Fundraising	Total
Payments to benefit the University	$	169,594	—	—	169,594
Contributions to other charities		108	—	—	108
Salaries and benefits		—	7,323	14,738	22,061
Office expense		—	381	767	1,148
Office rent and utilities		—	601	1,211	1,812
Professional services		—	768	582	1,350
Dues and subscriptions		—	102	205	307
Travel and conferences		—	284	572	856
Cultivation expense		—	—	1,386	1,386
Miscellaneous expense		—	819	262	1,081
Paid to beneficiaries		—	2,329	—	2,329
Depreciation		—	179	668	847
Total expense	$	169,702	12,786	20,391	202,879

(Dollars in thousands)

	2019			
	Program support	Management and general	Fundraising	Total
Payments to benefit the University	$ 199,691	—	—	199,691
Contributions to other charities	8,068	—	—	8,068
Salaries and benefits	—	6,959	14,164	21,123
Office expense	—	361	718	1,079
Office rent and utilities	—	594	1,183	1,777
Professional services	—	574	779	1,353
Dues and subscriptions	—	57	113	170
Travel and conferences	—	367	730	1,097
Cultivation expense	—	—	1,426	1,426
Miscellaneous expense	—	51	235	286
Paid to beneficiaries	—	2,311	—	2,311
Depreciation	—	537	1,406	1,943
Total expense	$ 207,759	11,811	20,754	240,324

Expenses are allocated to the various functions based on either the underlying purpose of the expense or allocated based on the percentage of time employees spend on each function for those that can be attributable to more than one function.

(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 5,600 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.

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 net assets with donor restrictions 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 net assets with donor restrictions 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:

(Dollars in thousands)

(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, 2020 and 2019 is as follows:

		2020		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	1,367,357	1,367,357
Board-designated endowment funds		28,478	—	28,478
Endowment totals	$	28,478	1,367,357	1,395,835

		2019		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	1,407,724	1,407,724
Board-designated endowment funds		28,030	—	28,030
Endowment totals	$	28,030	1,407,724	1,435,754

(Continued)

(Dollars in thousands)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

		2020		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$	28,030	1,407,724	1,435,754
Contributions		1,637	59,443	61,080
Investment return, net of expenses		63	(41,403)	(41,340)
Amounts appropriated for expenditures		(1,252)	(58,407)	(59,659)
Endowment net assets, end of year	$	28,478	1,367,357	1,395,835

		2019		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$	27,047	1,371,460	1,398,507
Contributions		885	39,189	40,074
Investment return, net of expenses		1,284	53,630	54,914
Amounts appropriated for expenditures		(1,186)	(56,555)	(57,741)
Endowment net assets, end of year	$	28,030	1,407,724	1,435,754

(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. 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.

(Continued)

(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.

(c) Funds with Deficiencies

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 contributions to the fund to be deficient and such funds are referred to as “underwater” funds. As of June 30, 2020, and 2019, funds with an original gift value of $765,877 and $555,674 were “underwater” by $76,923 and $35,240, respectively. Deficiencies of this nature were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions with donor restrictions and continued appropriation for certain programs as deemed prudent.

(9) 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.

(10) Subsequent Events

In preparing the consolidated financial statements, the Foundation has evaluated subsequent events for potential recognition or disclosure through September 25, 2020 the date the consolidated financial statements were available to be issued and determined there are no other items to disclose.