



UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



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

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

Independent Auditors' Report

The Board of Trustees
University of Nebraska Foundation:

We have audited the accompanying consolidated statements of financial position of the University of Nebraska Foundation (a Nebraska not-for-profit corporation) (the Foundation) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Nebraska Foundation as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 28, 2012

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Assets:		
Cash and cash equivalents	\$ 6,379,504	2,055,252
Temporary investments	321,310,251	286,090,498
Pledges receivable	179,779,568	151,118,469
Other receivables	3,652,047	2,992,277
Investments	1,252,565,708	1,300,444,873
Property and equipment, net of depreciation	<u>6,068,154</u>	<u>6,829,719</u>
Total assets	<u>\$ 1,769,755,232</u>	<u>1,749,531,088</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 851,820	900,975
University of Nebraska benefits payable	3,077,997	2,836,681
Scholarships, research, fellowships, and professorships payable	5,128,241	10,665,529
Deferred annuities payable	20,823,726	22,848,440
Deposits held in custody for others	270,020,900	281,001,007
Deferred revenue	<u>3,580,420</u>	<u>3,645,392</u>
Total liabilities	<u>303,483,104</u>	<u>321,898,024</u>
Net assets:		
Unrestricted	(15,573,559)	14,331,620
Temporarily restricted	738,242,260	709,174,591
Permanently restricted	<u>743,603,427</u>	<u>704,126,853</u>
Total net assets	<u>1,466,272,128</u>	<u>1,427,633,064</u>
Total liabilities and net assets	<u>\$ 1,769,755,232</u>	<u>1,749,531,088</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and gains:				
Gifts, bequests, and life insurance proceeds	\$ 471,579	118,747,699	45,745,372	164,964,650
Investment income	25,640,843	5,515,881	—	31,156,724
Change in value of split-interest agreements	—	1,629,417	—	1,629,417
Realized gain on investments, net	48,272	21,981,550	—	22,029,822
Unrealized loss on investments, net	<u>(23,017,445)</u>	<u>(1,522,799)</u>	<u>—</u>	<u>(24,540,244)</u>
	3,143,249	146,351,748	45,745,372	195,240,369
Reclassification due to change in donor intent	—	6,268,798	(6,268,798)	—
Net assets released from restrictions	<u>123,552,877</u>	<u>(123,552,877)</u>	<u>—</u>	<u>—</u>
Total revenues and gains	<u>126,696,126</u>	<u>29,067,669</u>	<u>39,476,574</u>	<u>195,240,369</u>
Expenses and losses:				
Salaries and wages	11,473,852	—	—	11,473,852
Payroll taxes	760,631	—	—	760,631
Employee benefits	2,247,492	—	—	2,247,492
Postage	157,722	—	—	157,722
Office supplies and expense	152,072	—	—	152,072
Professional services	850,677	—	—	850,677
Travel and entertainment	740,549	—	—	740,549
Telephone	229,672	—	—	229,672
Insurance and bonds	106,142	—	—	106,142
Repair and maintenance	482,973	—	—	482,973
Equipment rental/purchase	31,932	—	—	31,932
Office rent	1,558,385	—	—	1,558,385
University Towers expense	30,915	—	—	30,915
Promotion expense	2,224,879	—	—	2,224,879
Auto expense	119,450	—	—	119,450
Dues and subscriptions	128,869	—	—	128,869
Alumni associations	978,000	—	—	978,000
Miscellaneous expense	172,480	—	—	172,480
Recruiting and moving expense	151,937	—	—	151,937
Meetings and conferences	244,481	—	—	244,481
Investment expense	6,801,360	—	—	6,801,360
Academic support	38,410,337	—	—	38,410,337
Student assistance	17,960,134	—	—	17,960,134
Faculty assistance	4,644,717	—	—	4,644,717
Research	7,297,710	—	—	7,297,710
Museum, library, and fine arts	3,061,617	—	—	3,061,617
Campus and building improvements	51,348,147	—	—	51,348,147
Deferred compensation	16,667	—	—	16,667
Paid to beneficiaries	3,092,629	—	—	3,092,629
Bad debt and collection expense	13,274	—	—	13,274
Depreciation	<u>1,111,603</u>	<u>—</u>	<u>—</u>	<u>1,111,603</u>
Total expenses and losses	<u>156,601,305</u>	<u>—</u>	<u>—</u>	<u>156,601,305</u>
(Decrease) increase in net assets	(29,905,179)	29,067,669	39,476,574	38,639,064
Net assets at beginning of year	<u>14,331,620</u>	<u>709,174,591</u>	<u>704,126,853</u>	<u>1,427,633,064</u>
Net assets at end of year	\$ <u><u>(15,573,559)</u></u>	<u><u>738,242,260</u></u>	<u><u>743,603,427</u></u>	<u><u>1,466,272,128</u></u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and gains:				
Gifts, bequests, and life insurance proceeds	\$ 67,994	104,160,962	67,886,336	172,115,292
Investment income	22,894,005	7,147,291	—	30,041,296
Change in value of split-interest agreements	—	235,746	—	235,746
Realized gain on investments, net	6,301	48,952,239	—	48,958,540
Unrealized gain on investments, net	28,674,287	91,985,080	—	120,659,367
	<u>51,642,587</u>	<u>252,481,318</u>	<u>67,886,336</u>	<u>372,010,241</u>
Net assets released from restrictions	<u>136,988,987</u>	<u>(136,988,987)</u>	<u>—</u>	<u>—</u>
Total revenues and gains	<u>188,631,574</u>	<u>115,492,331</u>	<u>67,886,336</u>	<u>372,010,241</u>
Expenses and losses:				
Salaries and wages	10,982,433	—	—	10,982,433
Payroll taxes	751,923	—	—	751,923
Employee benefits	2,266,697	—	—	2,266,697
Postage	211,268	—	—	211,268
Office supplies and expense	155,258	—	—	155,258
Professional services	513,772	—	—	513,772
Travel and entertainment	824,588	—	—	824,588
Telephone	244,489	—	—	244,489
Insurance and bonds	108,876	—	—	108,876
Repair and maintenance	427,374	—	—	427,374
Equipment rental/purchase	35,975	—	—	35,975
Office rent	1,548,280	—	—	1,548,280
University Towers expense	32,170	—	—	32,170
Promotion expense	2,045,318	—	—	2,045,318
Auto expense	113,127	—	—	113,127
Dues and subscriptions	143,061	—	—	143,061
Alumni associations	1,028,000	—	—	1,028,000
Miscellaneous expense	162,394	—	—	162,394
Recruiting and moving expense	17,040	—	—	17,040
Meetings and conferences	269,950	—	—	269,950
Investment expense	6,247,244	—	—	6,247,244
Academic support	30,355,133	—	—	30,355,133
Student assistance	23,570,447	—	—	23,570,447
Faculty assistance	5,069,350	—	—	5,069,350
Research	7,124,968	—	—	7,124,968
Museum, library, and fine arts	5,100,131	—	—	5,100,131
Campus and building improvements	57,877,208	—	—	57,877,208
Deferred compensation	33,750	—	—	33,750
Paid to beneficiaries	3,482,774	—	—	3,482,774
Bad debt and collection expense	6,502	—	—	6,502
Depreciation	1,347,493	—	—	1,347,493
Total expenses and losses	<u>162,096,993</u>	<u>—</u>	<u>—</u>	<u>162,096,993</u>
Increase in net assets	26,534,581	115,492,331	67,886,336	209,913,248
Net assets at beginning of year	<u>(12,202,961)</u>	<u>593,682,260</u>	<u>636,240,517</u>	<u>1,217,719,816</u>
Net assets at end of year	<u>\$ 14,331,620</u>	<u>709,174,591</u>	<u>704,126,853</u>	<u>1,427,633,064</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 38,639,064	209,913,248
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	1,111,603	1,347,493
Realized gain on investments, net	(22,029,822)	(48,958,540)
Unrealized loss (gain) on investments, net	24,540,244	(120,659,367)
Contribution to permanently restricted endowment funds	(45,745,372)	(67,886,336)
Real and personal property contributions received	(1,678,220)	(2,382,558)
(Increase) decrease in:		
Pledges receivable	(24,550,281)	(8,668,130)
Other receivables	(511,265)	576,382
(Decrease) increase in:		
Accounts payable and accrued liabilities	(49,155)	(779,126)
University of Nebraska benefits payable	241,316	1,066,622
Scholarships, research, fellowships, and professorships payable	(5,537,288)	7,844,912
Deferred annuities payable	(2,024,714)	(192,510)
Deferred revenue	(64,972)	(69,664)
Net cash used in operating activities	<u>(37,658,862)</u>	<u>(28,847,574)</u>
Cash flows from investing activities:		
Purchase of temporary investments	(166,960,821)	(374,350,102)
Proceeds from sale and maturity of temporary investments	132,077,094	338,623,306
Net increase (decrease) in student loans	(148,505)	81,429
Purchase of investments	(1,953,774,338)	(214,938,436)
Proceeds from sale and maturity of investments	1,989,312,376	213,418,150
Proceeds from sales of property and equipment	268,833	—
Purchase of property and equipment	(426,079)	(299,082)
Net cash provided by (used in) investing activities	<u>348,560</u>	<u>(37,464,735)</u>
Cash flows from financing activity:		
Contribution to permanently restricted endowment funds	41,634,554	63,404,191
Net cash provided by financing activity	<u>41,634,554</u>	<u>63,404,191</u>
Net (decrease) increase in cash and cash equivalents	4,324,252	(2,908,118)
Cash and cash equivalents, beginning of year	2,055,252	4,963,370
Cash and cash equivalents, end of year	\$ <u>6,379,504</u>	<u>2,055,252</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) *Nature of the Entity and Principles of Consolidation*

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

(b) *Basis of Accounting and Presentation*

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

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

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

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

(c) *Cash and Cash Equivalents*

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

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(d) Contributions

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

(e) Investments and Temporary Investments

Investments and temporary investments in equity securities with readily determinable fair values and all debt securities are reported at fair value. Investments in securities traded on a national securities exchange are valued at the latest quoted market prices. For debt securities, if quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of similar securities with similar characteristics, or discounted cash flows. For alternative investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate funds, commingled funds, and similar funds, the Foundation estimates fair value using net asset value per share or its equivalent as a practical expedient to estimated fair value. Investments in closely held stock are estimated based on independent appraisals and information provided by the respective companies.

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

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

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(f) *Property and Equipment*

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

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

(g) *Deposits Held for Others*

Deposits held for others represent funds held in a fiduciary capacity. The transactions of these funds are not reflected in the consolidated statements of activities as the Foundation is acting as an agent for these funds. Such funds approximated \$270 million and \$281 million at June 30, 2012 and 2011 and were held on behalf of the University of Nebraska.

(h) *Fair Value of Financial Instruments*

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

The Foundation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Foundation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(i) ***Income Taxes***

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2012 and 2011, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

(j) ***Use of Estimates***

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

(2) **Fair Value Measurements**

The Foundation utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). 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.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The tables below present the balances of assets measured at June 30, 2012 and 2011 at fair value on a recurring basis.

	2012			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Certificates of deposit, savings, and money funds	\$ 25,133,234	25,133,234	—	—
U.S. government securities and sovereign debt	9,628,508	—	9,628,508	—
State government securities	1,589,244	—	1,589,244	—
Local government securities	1,475,011	—	1,475,011	—
International bonds	31,241,029	—	31,241,029	—
Corporate bonds	97,147,486	97,147,486	—	—
Common stock	301,109,016	281,925,554	—	19,183,462
Mutual funds – equity	68,521,840	68,521,840	—	—
Mutual funds – fixed income	159,256,851	159,256,851	—	—
Real estate funds	5,379,314	—	—	5,379,314
Limited partnerships	494,239,715	—	477,667,896	16,571,819
Preferred stock	167,158	—	167,158	—
Temporary investments:				
U.S. Treasuries	244,290,215	244,290,215	—	—
Certificates of deposit	6,329,070	—	6,329,070	—
State government securities	4,753,563	—	4,753,563	—
Local government securities	14,765,079	—	14,765,079	—
Corporate bonds	46,280,087	46,280,087	—	—
Total	\$ <u>1,511,306,420</u>	<u>922,555,267</u>	<u>547,616,558</u>	<u>41,134,595</u>

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

	2011			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Certificates of deposit, savings, and money funds	\$ 13,910,634	13,910,634	—	—
U.S. government securities and sovereign debt	7,113,400	—	7,113,400	—
State government securities	1,423,668	—	1,423,668	—
Local government securities	1,310,456	—	1,310,456	—
International bonds	34,025,081	—	34,025,081	—
Corporate bonds	13,320,121	13,320,121	—	—
Common stock	390,692,139	390,692,139	—	—
Mutual funds – Equity	72,678,727	72,678,727	—	—
Mutual funds – Fixed income	148,806,887	148,806,887	—	—
Real estate funds	5,770,202	—	—	5,770,202
Limited partnerships	550,121,488	—	535,521,500	14,599,988
Preferred stock	186,636	—	186,636	—
Temporary investments:				
U.S. Treasuries	281,190,498	281,190,498	—	—
Certificates of deposit	4,900,000	—	4,900,000	—
Total	<u>\$ 1,525,449,937</u>	<u>920,599,006</u>	<u>584,480,741</u>	<u>20,370,190</u>

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

There were no transfers between Level 1 and Level 2 inputs during the year ended June 30, 2012. The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Balance, July 1, 2010	\$ 183,970,296
Transfers and reclassifications	(160,559,858)
Net realized losses	(115,768)
Net unrealized gains	2,116,683
Interest, dividends, and other income/losses	334,349
Investment management fees	(689,917)
Purchases	1,421,071
Distributions	<u>(6,106,666)</u>
Balance, June 30, 2011	20,370,190
Transfers and reclassifications	19,183,462
Net realized gains	2,260,989
Net unrealized losses	(876,492)
Interest, dividends, and other income/losses	(60,316)
Investment management fees	(521,586)
Purchases	3,545,860
Distributions	<u>(2,767,512)</u>
Balance, June 30, 2012	<u>\$ 41,134,595</u>

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(3) Investments

Investments consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments stated at fair value:		
Certificates of deposit, savings, and money funds	\$ 25,133,234	13,910,634
U.S. government securities and sovereign debt	9,628,508	7,113,400
State government securities	1,589,244	1,423,668
Local government securities	1,475,011	1,310,456
International bonds	31,241,029	34,025,081
Corporate bonds	97,147,486	13,320,121
Common stock	301,109,016	390,692,139
Mutual funds – equity	68,521,840	72,678,727
Mutual funds – fixed income	159,256,851	148,806,887
Real estate funds	5,379,314	5,770,202
Limited partnerships	494,239,715	550,121,488
Preferred stock	167,158	186,636
Investments stated at other than fair value:		
Real estate	47,827,661	47,515,896
Real estate mortgage and contracts	3,074,475	4,508,127
Other	3,861,776	4,154,235
Cash value of life insurance	2,755,348	4,698,684
Annuity contracts	158,042	208,492
	<u>\$ 1,252,565,708</u>	<u>1,300,444,873</u>
Temporary investments stated at fair value:		
U.S. Treasuries	\$ 244,290,215	281,190,498
Certificates of deposit	6,329,070	4,900,000
State government securities	4,753,563	—
Local government securities	14,765,079	—
Corporate bonds	46,280,087	—
Temporary investments stated at other than fair value:		
Real estate	4,892,237	—
	<u>\$ 321,310,251</u>	<u>286,090,498</u>

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The estimated value of certain alternative investments and nonmarketable securities, such as partnerships and private equity funds, was provided by the respective companies. For these alternative investments, the Foundation uses the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value at June 30, 2012 and 2011:

	2012			
	Fair value	Unfunded commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Domestic equities	\$ 142,977,971	—	m/q	1 – 90 days
International equities	229,955,397	—	m/q	1 – 90 days
Commodities	25,059,495	—	m/q	1 – 90 days
Private equity/venture capital	11,148,154	10,134,795	N/A	N/A
Real asset funds	10,802,979	4,147,183	N/A	N/A
Hedge funds:				
Domestic long/short	14,192,118	—	q/sa/a	90 – 360 days
Global long/short	18,313,324	—	q/sa/a	90 – 360 days
Multiple strategies	31,282,337	—	q/sa/a	90 – 360 days
Credit strategies	15,887,254	—	q/sa/a	90 – 360 days
	<u>\$ 499,619,029</u>	<u>14,281,978</u>		

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

	2011			
	Fair value	Unfunded commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Domestic equities	\$ 171,986,848	—	m/q	1 – 90 days
International equities	188,874,515	—	m/q	1 – 90 days
Commodities	14,356,418	—	m/q	1 – 90 days
Fixed income	76,643,049	—	m/q	1 – 90 days
Private equity/venture capital	12,260,948	1,218,711	N/A	N/A
Real asset funds	11,107,325	6,020,533	N/A	N/A
Hedge funds:				
Domestic long/short	13,359,578	—	q/sa/a	90 – 360 days
Global long/short	18,788,167	—	q/sa/a	90 – 360 days
Multiple strategies	32,397,876	—	q/sa/a	90 – 360 days
Credit strategies	16,116,966	—	q/sa/a	90 – 360 days
	<u>\$ 555,891,690</u>	<u>7,239,244</u>		

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

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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross amount due in:		
One year or less	\$ 67,409,111	49,634,378
One to five years	118,606,596	105,165,552
More than five years	<u>21,073,340</u>	<u>21,062,238</u>
	207,089,047	175,862,168
Less discount to present value	<u>21,749,286</u>	<u>20,069,932</u>
	185,339,761	155,792,236
Less allowance for doubtful accounts	<u>5,560,193</u>	<u>4,673,767</u>
	<u>\$ 179,779,568</u>	<u>151,118,469</u>

The discount will be recognized as contribution income in years 2012 through 2040.

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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Property	\$ 1,691,989	1,650,783
Leasehold improvements	3,291,479	3,156,711
Aircraft	4,176,933	4,176,933
Automobiles	264,822	290,211
Furniture, equipment, and software	<u>7,173,351</u>	<u>6,922,013</u>
	16,598,574	16,196,651
Less accumulated depreciation	<u>10,530,420</u>	<u>9,366,932</u>
Net property and equipment	<u>\$ 6,068,154</u>	<u>6,829,719</u>

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. The value of split-interest agreements is measured as the Foundation's share of the assets. Liabilities associated with these agreements as of June 30, 2012 and 2011 are \$20,823,726 and \$22,848,440, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position.

(7) Net Assets

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

The amounts of the net assets as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Temporarily restricted – charitable trusts and annuities	\$ 28,319,306	31,201,753
Temporarily restricted – available for specific purposes	709,922,954	677,972,838
Permanently restricted – endowment	<u>743,603,427</u>	<u>704,126,853</u>
	<u>\$ 1,481,845,687</u>	<u>1,413,301,444</u>

Net assets of \$123,552,877 and \$136,988,987 were released from donor restrictions during 2012 and 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(8) Endowments

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

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

The Board of Directors of the Foundation has interpreted NUPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011 is as follows:

	2012			Total net
	Unrestricted	Temporarily restricted	Permanently restricted	endowment assets
Donor-restricted endowment funds	\$ (42,587,226)	260,415,096	743,603,427	961,431,297

	2011			Total net
	Unrestricted	Temporarily restricted	Permanently restricted	endowment assets
Donor-restricted endowment funds	\$ (17,449,270)	290,601,564	704,126,853	977,279,147

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	\$ (17,449,270)	290,601,564	704,126,853	977,279,147
Contributions	—	5,901,461	45,745,372	51,646,833
Investment income, net of expenses	—	5,139,093	—	5,139,093
Net appreciation (depreciation)	(25,137,956)	1,516,153	—	(23,621,803)
Amounts appropriated for expenditure	—	(42,743,175)	—	(42,743,175)
Reclassification due to change in donor intent	—	—	(6,268,798)	(6,268,798)
Endowment net assets, end of year	<u>\$ (42,587,226)</u>	<u>260,415,096</u>	<u>743,603,427</u>	<u>961,431,297</u>
	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	\$ (49,526,132)	236,885,903	636,240,517	823,600,288
Contributions	—	1,600,542	67,886,336	69,486,878
Investment income, net of expenses	—	6,500,990	—	6,500,990
Net appreciation	32,076,862	87,226,664	—	119,303,526
Amounts appropriated for expenditure	—	(41,612,535)	—	(41,612,535)
Endowment net assets, end of year	<u>\$ (17,449,270)</u>	<u>290,601,564</u>	<u>704,126,853</u>	<u>977,279,147</u>

(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

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to earn a real (inflation-adjusted) rate of return of at least 5.5% per year net of investment management fees and transaction costs, when measured over rolling five-year period. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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

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

(9) Lease Commitments

The Foundation entered into an amended lease agreement for rental of office space on the second and third floors in Lincoln, beginning September 1, 2007 and extending through August 31, 2017. The annual rental is \$577,136 through calendar year 2012, with a possible increase based on changes in the consumer price index for the period from January 1, 2013 through August 31, 2017. The Foundation had also entered into a contract for rental of office space in Omaha for 15 years beginning on November 1, 2008 with increases every 60 months. The annual rental is \$388,075 for the first five years and \$418,713 for the next five years. The Foundation entered into an amended lease agreement for office space in Kearney for the period from November 1, 2008 to October 31, 2014 at a rental rate of \$3,500 per month with an increase to \$3,583 effective November 1, 2011. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2012 are as follows:

2013	\$	1,008,211
2014		1,028,636
2015		1,010,182
2016		995,849
2017		995,849

UNIVERSITY OF NEBRASKA FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(10) Retirement Plan

The Foundation sponsors a retirement plan that covers employees of the Foundation and Tech Park with one year of service who work in excess of 1,000 hours annually and have attained the age of 21 years or previous participation in the TIAA-CREF or Fidelity annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Section 403b(1) of the Internal Revenue Code using annuities under TIAA-CREF and Fidelity Investments. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of his/her salary to the plan and the Foundation matches the amount with either 8.0% or 6.5% of salary, respectively. Effective January 1, 2012, any employee enrolling in the lower tier of the plan will contribute 3.5% of salary to the retirement plan and receive an employer contribution equal to 5.5% of the employee's salary. Any employee currently enrolled in the lower tier will be grandfathered as long as he/she continues his/her current enrollment in the lower tier and will receive an employer contribution of 6.5% of his/her salary. However, if the employee elects to move to the higher tier (5.5% employee, 8.0% employer) at any future time and subsequently wishes to re-enroll in the lower tier, he/she will be subject to the employer contribution rate in effect at that time. The Foundation and Tech Park contributions to the plans for the years ended June 30, 2012 and 2011 were \$774,136 and \$720,432, respectively.

(11) Contingencies and Commitments

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

(12) Subsequent Events

In preparing the consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 28, 2012, the date the consolidated financial statements were available to be issued.