

The University of Nebraska
(A Component Unit of the State of
Nebraska)

*Basic Financial Statements and Additional
Information for the Years Ended June 30, 2005
and 2004 and Independent Auditors' Reports*

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

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Independent Auditors' Report

Board of Regents of the University of Nebraska and the
Auditor of Public Accounts of the State of Nebraska
Lincoln, Nebraska

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the University of Nebraska (the University) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the University as of June 30, 2004, were audited by other auditors whose report thereon dated November 30, 2004, expressed an unqualified opinion on those statements. We did not audit the financial statements of the University of Nebraska Foundation (the Foundation), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us and appears herein, and our opinion insofar as it relates to the discretely presented component unit financial statements of the Foundation is based solely on the report of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. 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 University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Nebraska, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, the University adopted in 2005 the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures, an Amendment to GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit for the year ended June 30, 2005, was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information for the year ended June 30, 2005 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information for the year ended June 30, 2005 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The report of the other auditors referred to above, dated November 30, 2004, stated that the additional information for the year ended June 30, 2004, was subjected to auditing procedures applied in their audit of the 2004 financial statements and, in their opinion, was fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2004, taken as a whole.

KPMG LLP

Lincoln, Nebraska
November 11, 2005

DANA F. COLE & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1248 O STREET, SUITE 500
LINCOLN, NEBRASKA 68508

INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Nebraska Foundation
Lincoln, Nebraska

We have audited the accompanying consolidated statements of financial position of the University of Nebraska Foundation as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of the University of Nebraska Foundation at June 30, 2005 and 2004, and the results of its activities and the cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dana F. Cole + Company, LLP

Lincoln, Nebraska
July 29, 2005

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

Introduction

This discussion and analysis is designed to provide an overview of the financial position and activities of the University of Nebraska (the University) for the years ended June 30, 2005 and 2004. This analysis has been prepared by management of the University and it is intended to be read with the financial statements and related footnotes that follow this section.

The University is a comprehensive public institution of higher education, research, and public service. It was founded in Lincoln, Nebraska on February 15, 1869. The University became a multi-campus institution in 1968 by an act of the Nebraska Legislature that provided for the addition of the University of Nebraska at Omaha to the University system (formerly the municipal University of Omaha) and, at the same time, designated the University of Nebraska-Lincoln and University of Nebraska Medical Center as separate campuses. In 1991, the former Kearney State College became the fourth campus as the University of Nebraska at Kearney.

The University's four campuses provide a diversity of offerings. The University of Nebraska-Lincoln (UNL) offers a wide range of undergraduate majors and has primary responsibility for graduate education, particularly at the doctoral level, and in the non-medical professions. UNL also includes the Institute of Agriculture and Natural Resources, which operates research extension centers across the State of Nebraska (the State), as well as offering major educational and research programs on campus. The University of Nebraska Medical Center (UNMC) features undergraduate, graduate, and professional degree programs that prepare students for a wide variety of careers in health sciences. The University of Nebraska at Omaha (UNO) is a metropolitan university located in the heart of Nebraska's largest city offering a broad range of undergraduate programs, as well as doctoral programs, in criminal justice and public administration. The University of Nebraska at Kearney (UNK) is a mid-sized, residential campus with a commitment to excellence in undergraduate education. UNK offers undergraduate degrees in the arts and sciences, education, and business and technology, with a wide range of majors.

Student Enrollment - Headcount

Campus	Fall Semester				
	2001	2002	2003	2004	2005
UNL	22,764	22,988	22,559	21,792	21,675
UNMC	2,724	2,819	2,865	2,904	3,002
UNO	14,143	14,451	13,997	13,824	14,093
UNK	6,426	6,395	6,379	6,382	6,445
Total	46,057	46,653	45,800	44,902	45,215

The financial statements for the University of Nebraska include six blended entities, those being the University of Nebraska Facilities Corporation (UNFC), the University Medical Associates (UMA), UNeMed, the University of Nebraska Dental Associates, the Nebraska Utility Corporation, and the Peter Kiewit Institute Technology Development Corporation. Additional information regarding these entities is described in the footnotes to the financial statements.

THE UNIVERSITY OF NEBRASKA

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED) (Columnar Amounts in Thousands)

In accordance with the guidance of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14*, the University of Nebraska Foundation's (the Foundation) financial statements are discretely presented with the University's financial statements. Management's discussion and analysis relates only to the University and does not include any overview of the financial position and activities of the Foundation. References to the Foundation within the analysis relate only to specific transactions with the University.

The fall 2004 (fiscal 2005), headcount enrollment was approximately 45,000 on the four campuses. This represents a slight increase reversing a two-year overall decrease. This increase occurred at all campuses save UNL enrollment decreasing slightly. The fall 2005 (fiscal 2006) enrollment increased slightly after a decline of 2% in the fall of 2004. The University is hopeful for continued future enrollment increases and has devoted greater efforts to recruit both in-state and out-of-state students through such activities as improvement of student residences and facilities. The number of students enrolled in graduate and professional programs was 10,553, representing 23% of the student body, reflecting the University's commitment to its increasing prominence as a major research institution.

Financial and Operating Highlights

- **Growth in Net Assets.** Total net assets and unrestricted net assets of the University grew by approximately 5% and 9%, respectively, and are attributable to several factors. University management aggressively managed budgets to conserve resources. Budget savings were augmented by a 12% increase in tuition to partially offset state appropriation declines of previous years and to keep the University competitive with faculty salaries. Unrestricted net assets represent about two months of total operating expenses before depreciation and health and other insurance claims. Maintenance of a prudent level of reserves is a key to the long-term success of the University.
- **New Capital Construction.** Several capital construction projects were completed during the year, including the renovation of the UNK Student Center, new UNMC and UNL student housing units, completion of the renovation of three research buildings, Dental College betterments, and the acquisition of an office building for future renovation and expansion.
- **Indebtedness.** The University issued no new bonded indebtedness during fiscal 2005. Revenue bonds all exceeded required debt service coverage.
- **Increase in Federal Grants and Contracts.** Revenues from federal grants and contracts rose 9% over the prior year. The growth in federal funding is indicative of the successful focus the University has placed on seeking new research funding and fuels other successes in recruitment and retention of high-caliber students and faculty.

Using the Financial Statements

The financial statements of the University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements are prepared in accordance with GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. The statements and related footnotes are presented on a combined basis for the University as a whole.

THE UNIVERSITY OF NEBRASKA
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

Statement of Net Assets. The Statement of Net Assets includes all of the assets and liabilities of the University and its component units on the accrual basis of accounting. The difference between total assets and total liabilities represents the net assets of the University and is one indicator of its overall current financial condition. Over time, increases or decreases in the University's net assets is indicative of whether its financial health is improving or deteriorating.

Assets classified as non-current are those that are expected to mature beyond a one-year period or represent special accounts such as those established to comply with revenue bond covenants.

Capital assets are presented net of accumulated depreciation.

Net assets are divided into three parts:

- Invested in Capital Assets. The University's total investment in capital assets less accumulated depreciation and outstanding bond obligations incurred to acquire, construct, or improve those assets.
- Restricted Net Assets:
 - Expendable: funds externally restricted by creditors, grantors, or contributors and includes grant and research funds, student loan programs, funds for plant construction, and debt service on bond obligations.
 - Nonexpendable: permanent endowments.
- Unrestricted Net Assets. Comprised of the University's investment in the joint venture of the Nebraska Medical Center (NMC) of \$163 million, quasi endowments of \$29 million, net assets of the healthcare blended entities of \$56 million, with the balance representing designated departmental balances, encumbrances and working capital funds.

Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets discloses the revenues and expenses of the University during the year. Revenues and expenses are classified as either operating or non-operating. Revenues realized from operating activities are offset by operating expenses, including depreciation, resulting in an operating income or loss. Most significantly, the GASB requires that certain funding sources that are significant to the University, including State appropriations, gifts, and investment income, be classified as non-operating revenues. In large public land-grant institutions, this, by definition, will invariably create operating losses on the statement of revenues and expenses and negative cash flows from operations in the statement of cash flows.

Scholarships and fellowships granted to students are shown as a reduction of tuition and other revenues, while stipends and other cash payments made directly to students are reported as scholarship and fellowship expenses.

Statement of Cash Flows. The Statement of Cash Flows provides information about the cash receipts and cash payments made by the University during the year. When used with related disclosures and information in the other financial statements, this statement should help assess the University's ability to generate future cash flows, its ability to meet its obligations when they come due, its needs for financing, the reasons for

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

differences between operating income and associated cash receipts, and payments and the effects on the University's financial position by investing, capital, and financing transactions during the period.

Condensed Financial Statements and Analysis

Condensed Statements of Net Assets

	June 30,	
	2005	2004
Assets		
Current assets	\$ 610,860	\$ 682,405
Capital assets, net of accumulated depreciation	1,086,969	998,446
Other non-current assets	474,327	407,660
Total assets	<u>2,172,156</u>	<u>2,088,511</u>
Liabilities and Net Assets		
Current liabilities	199,978	177,226
Non-current liabilities	398,037	417,352
Total liabilities	<u>598,015</u>	<u>594,578</u>
Net assets:		
Invested in capital assets, net of related debt	733,777	702,947
Restricted for:		
Nonexpendable:		
Permanent endowment	182,941	174,577
Expendable:		
Externally restricted funds	111,000	119,575
Loan funds	43,783	42,551
Plant construction	24,523	12,740
Debt service	81,874	76,734
Unrestricted	396,243	364,809
Total net assets	<u>\$ 1,574,141</u>	<u>\$ 1,493,933</u>

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FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,	
	2005	2004
Operating revenues:		
Tuition and fees	\$ 186,987	\$ 168,882
Federal grants and contracts - restricted	271,603	250,092
State grants and contracts - restricted	28,019	25,770
Private grants and contracts - restricted	83,357	77,195
Sales and services of educational activities	47,802	44,536
Sales and services of health care entities	112,471	109,069
Sales and services of auxiliary operations	106,852	107,883
Sales and services of auxiliary segments	56,461	53,011
Other operating revenues	11,765	8,747
Total operating revenues	<u>905,317</u>	<u>845,185</u>
Operating expenses:		
Salaries and wages	629,072	608,205
Benefits	163,068	144,885
Total compensation and benefits	<u>792,140</u>	<u>753,090</u>
Supplies and materials	207,229	196,228
Contractual services	95,073	87,283
Repairs and maintenance	43,922	39,516
Utilities	27,812	26,612
Communications	12,059	12,449
Depreciation	57,583	52,227
Scholarships and fellowships	111,083	103,924
Total operating expenses	<u>1,346,901</u>	<u>1,271,329</u>
Operating loss	<u>(441,584)</u>	<u>(426,144)</u>
Non-operating revenues (expenses):		
State of Nebraska noncapital appropriations	398,933	390,188
Gifts	53,089	46,625
Investment income	27,836	31,518
Increase in fair value of investments	4,655	18,577
Interest on loans receivable	465	572
Interest on bond obligations	(18,855)	(15,730)
Capitalized interest on bond obligations	6,442	-
Equity in joint venture	18,218	19,349
Net non-operating revenues	<u>490,783</u>	<u>491,099</u>
Income before other revenues, expenses, gains, or losses	49,199	64,955
Other revenues, expenses, gains, or losses:		
State of Nebraska capital appropriations	12,976	9,309
Capital grants and gifts	19,750	21,575
U.S. government advances	1,394	546
Additions to permanent endowments	1,227	2,110
Loss on disposal of plant assets	(4,338)	(6,030)
Net other revenues, expenses, and gains or losses	<u>31,009</u>	<u>27,510</u>
Increase in net assets	80,208	92,465
Net assets:		
Net assets, beginning of year	1,493,933	1,401,468
Net assets, end of year	<u>\$ 1,574,141</u>	<u>\$ 1,493,933</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED) (Columnar Amounts in Thousands)

Analysis of Financial Position. Cash and cash equivalents represent the preponderance of current assets of the University. Cash decreased overall with the most of the change coming from a decrease in restricted cash. Restricted cash represents unspent bond proceeds on deposit with trustees, therefore the change represents the spending of those balances from late fiscal 2004 bond issues for their stated purposes.

Non-current assets of the University are dominated by the investment in physical plant. At June 30, 2005, the University had approximately \$1.1 billion invested in capital assets, net of accumulated depreciation of \$485 million. Physical plant grew primarily from construction of apartment-style student residences at UNMC and UNL, installation of new dental patient teaching stations at the College of Dentistry, acquisition of an office building for future growth of the UNMC campus, renovation of the UNK Student Center, and completion of the renovation of three research buildings. For fiscal 2005, net capital assets increased \$89 million consisting of net capital additions of \$156 million less depreciation of \$58 million. This enhancement of facilities can be attributed to the University's ability to gain private support for the acquisition and renovation of facilities to support new instruction and research facilities and the planned efforts to improve student living space.

Unrestricted net assets grew from \$365 million in 2004 to \$396 million in fiscal 2005 and includes the NMC, a joint venture. NMC is a primary research and teaching hospital and health care provider in the region and was formed by the merger of the University's hospital and Bishop Clarkson Memorial Hospital in 1997. This portion of unrestricted net assets increased by \$18 million to \$163 million in 2005. The balance of the change in unrestricted net assets is attributable to the change in cash discussed earlier in this section, along with a conscious effort by management to increase self-insurance reserves. These insurance reserves are considered by accounting definitions to be part of "unrestricted" funds, along with other amounts attributable to University quasi endowments (\$29 million) and the capital of University Medical Associates (\$56 million), an affiliated entity encompassing the practice plan group at UNMC.

Analysis of Operations – Overview. The University generated \$905 million of operating revenues during 2005, an increase of \$60 million over last year, while operating expenses were \$1,347 million, up \$75 million over the prior year. These changes increased the operating loss by \$15 million to \$442 million. As disclosed earlier, because of the mandated financial reporting regarding classification of state appropriations and other funding sources, statements of activities for large public land-grant universities will invariably report an operating loss.

The Nebraska Legislature provided \$399 million in non-capital appropriations for 2005, an increase of \$9 million over 2004. The University, in conjunction with the Foundation, generated gifts amounting to approximately \$73 million that, when combined with all other non-operating revenues and expenses, netted an overall increase in net assets of about \$80 million.

Revenues. The University's operating revenues increased in fiscal 2005 by 7%, or \$60 million. Most of the revenue sources showed increases from the prior year.

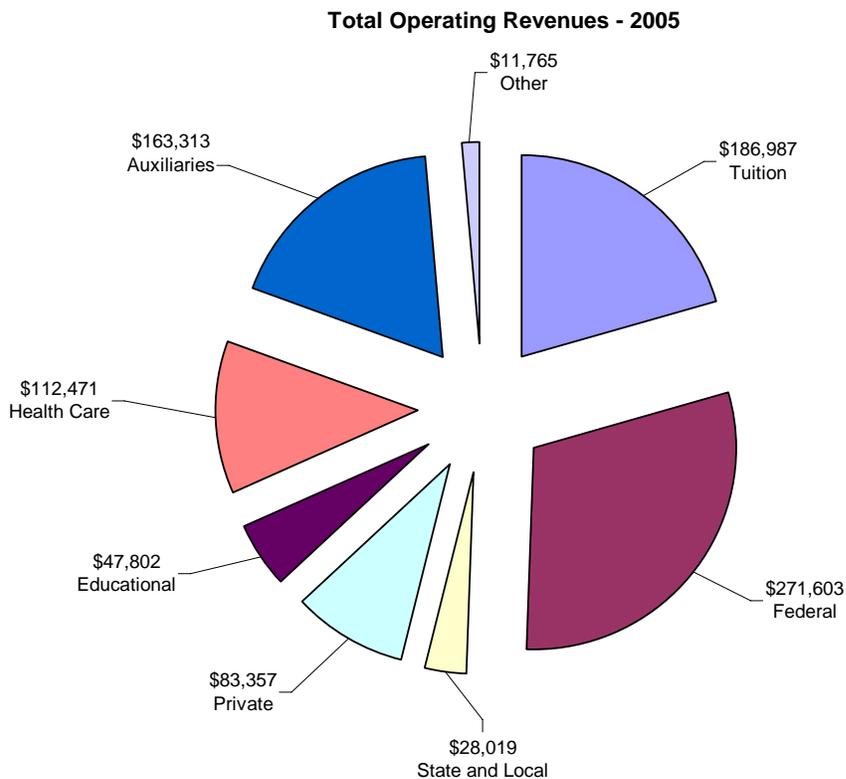
- One of the largest increases in revenue dollars was realized in Federal grants and contracts. The \$21 million increase is attributable primarily to University of Nebraska-Lincoln's grant awards from several Federal Agencies, including the Department of Health and Human Services, National Science Foundation, Department of Energy, and the Department of Education. Grants awarded included the research of soybean oil for diesel fuel, national assessment of educational progress, metabolite signaling center, elevating seed protein content, studies of blast wave absorbing structures, and the

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

Ford Direct Student loan program. The UNMC also had growth in federal funding and received National Institute of Health grants for medical research of numerous diseases and health issues and funding for the purchase of equipment for a microbiology automation platform project.

- Tuition and fees, net of scholarship allowances, increased by \$18 million dollars, or 11%, for the 2004-2005 year. The Board of Regents approved an increase in tuition of 12%, but a small decline in enrollment and additional scholarship allowances netted down the increase in tuition from 12% to 11%.
- Private gifts and grants increased by \$6 million dollars. This increase is attributable to gifts received from health and medical associations, financial institutions, a grant from the National Conference on Undergraduate Education, and an increase in funding from the University of Nebraska Foundation for scholarships and academic programs.
- Sales and services of health care entities increased by \$3 million. This change can be traced to the University Medical Associates' increase in patient care revenue from several clinical programs, including orthopedics, cardiology, radiology, and general surgery.



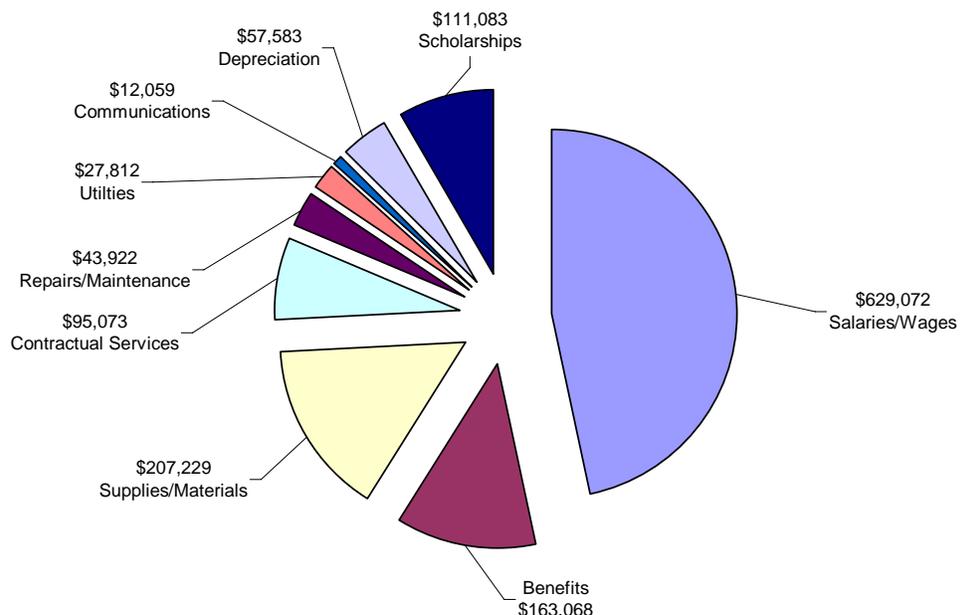
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

Expenses. Operating expenses were \$1,347 million for the 2005 fiscal year, an increase of 6% compared to 2004. Changes in the major expense classifications follow.

- Salaries, wages, and benefits increased by \$39 million in 2005 compared to 2004. Faculty salaries and benefits increases averaged 1.75%. Additional amounts were expended for targeted areas including for excellence and instructional workload salaries, research initiative programs, and intercampus development. Additionally, UNL delayed annual increases until January 1, 2004 the previous year, making the year-to-year changes appear higher. Rising health care costs contributed \$8 million toward the 2005 increases in this category.
- Repairs and maintenance expenses increased by 4% reflecting continued efforts by the University and auxiliary operations to keep buildings, the infrastructure, and utility distribution systems in good repair. One of the larger renovation projects was the UNO Enrollment Services office.
- Supplies and materials increased by 7% reflecting inflationary increases for the purchase of materials to support the instruction and research programs.
- Contractual services increased 9% corresponding to increased activity in Federal research grants and sub-awards for polar and other research studies and the blending of the PKITDC activity for the first year of operations in 2005.
- Scholarships and fellowships grew by \$7 million during 2005. The campuses increased scholarship allowances along with additional Federal student aid and direct student loan program funds in an effort to maintain affordability.

Total Operating Expenses - 2005



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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED) (Columnar Amounts in Thousands)

Non-Operating Revenues (Expenses). Net non-operating revenues remained unchanged during 2005 compared with 2004. This change is the result of an increase in state non-capital appropriations of \$8 million and an increase of \$6 million in gifts, offsetting a \$4 million reduction in investment income and decreases in fair value of investments.

The University garnered \$53 million in non-capital gifts during the year thanks to continued strong support from the private sector and the Foundation. In addition, capital grants and gifts of \$20 million were received during the current year, including contributions from the Foundation of \$3.9 million for the renovation of Foster Field located on the UNK campus and \$10.5 million for future development of the Research Center of Excellence at UNMC.

Capital Assets

The University made significant investments in capital assets during the current year. Major construction projects and acquisitions completed were:

- Suite-style residential housing was completed for 468 students on the UNL campus for a cost of \$26 million. These housing units were financed by the 2003A Student Fees and Facilities bonds and are included as a member of the obligated group under the Master Trust Indenture (MTI).
- Renovation of three research buildings was completed at a cost of \$29 million. These capital outlays were financed partially by the UNFC Deferred Maintenance bonds and other revenues from Federal and private sources. The buildings included Avery and Hamilton Halls and the Veterinary Science building at UNL, all of which play valuable roles in research and education.
- The 60 new student apartment units in two buildings were completed on the UNMC campus. This construction was financed by the issuance of \$5 million of revenue bonds during 2005. These units significantly update UNMC's housing inventory.
- A former bank building adjacent to the UNMC campus was purchased for \$8 million and financed partially through a lease purchase agreement with the University of Nebraska Foundation and will prove valuable in future expansion of the campus.
- An enhancement to the UNK Student Center was completed during the year at a cost of around \$1 million and is a significant improvement to student life on the campus.
- Other auxiliary operations cash flows of \$1.5 million were used to fund new facilities for UNL campus security. This improvement creates a visibility for campus security and facilitates more efficient services to the campus community.
- Fire and life safety projects were completed on all campuses. Funding for these projects came from capital appropriations for this purpose by the Legislature through the State's Task Force for Building Renewal.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED) (Columnar Amounts in Thousands)

More detailed information on capital asset activity is disclosed in the Notes to the Financial Statements included in this report.

Debt Activity

The University did not issue any new bonds or refinance any outstanding bonds during 2005, having successfully refinanced all refundable bonds during the interest rate troughs in the prior year. The University continued to experience net revenues from activities that exceeded required support for outstanding bonds.

The Board of Regents of the University of Nebraska Members of the Obligated Group under the MTI has bonds outstanding from the construction of student housing and parking. The financial position of the MTI remains strong with operating income that provided a debt service ratio of 1.45 times for the year ended June 30, 2005 and 1.89 times for the year ended June 30, 2004. The debt service ratio required by the MTI covenants is 1.15 times.

The UNK Student Fees and Facilities bond activities enjoys a strong financial position having ended the year with sufficient operating income to cover debt service 2.1 times in 2005 compared to 1.7 times in 2004.

The UNFC met all debt service requirements during 2005. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Project, which is combined with designated tuition revenues for debt service. The Foundation continues to receive funds from donor gifts pledged toward the funding of the University of Nebraska Center Research Center project. Funds from internal University sources continue to meet expectations allowing the service of UNFC-related debt obligations in their normal course.

Economic Outlook and Subsequent Events That Will Affect the Future

The University, as the State's public research university, is an important component in driving the economic success of Nebraska. This partnership with the State also means, like other major land-grant universities, that State funding plays an important part in the success of the University in many areas.

Management of the University is encouraged by signs that the partnership with the State is strengthening, which gives renewed confidence to the University as it looks forward. The Governor and the State Legislature gave the University increases of 7.4% and 6.1% for the two years in the biennium that ends June 30, 2007. These are the largest increases in many years. In another positive development, the Legislature, the Governor, and the University are exploring ways to launch and fund another deferred maintenance initiative designed to enhance and improve facilities to better serve today's students and grow the research enterprise.

The economic performance of the State also offers promising prospects. The State Tax Commissioner recently reported that State receipts through the four months ended October 31, 2005, were \$93 million, or about 10% of over projections. This followed a fiscal year ended June 30, 2005, where the State recorded receipts \$261 million, or 9%, in excess of projected revenues.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Columnar Amounts in Thousands)

In a focused effort to chart the future direction of the University, the President and the Board of Regents have set forth a strategic framework and priorities that will guide the University. These will help the University better serve Nebraskans through quality teaching, research, outreach, and engagement. Among those priorities:

- **Enrollment.** Growing enrollment through a number of initiatives including growing the college-going rate.
- **Tuition.** Keeping tuition increases as low as possible and thereby the cost of education more affordable.
- **Graduation.** Increasing the graduation rate.
- **Research.** Bolstering current endeavors and fostering new activities that will allow the University to continue to earn greater success in attracting research funding.
- **Administrative Costs.** Seeking efficiencies in business practices and challenging administrative costs in both the academic and business enterprises.
- **Faculty Salaries.** Continuing to pursue and identify resources that can be earmarked to enhance faculty salaries to facilitate even greater successes in recruitment and retention.

Again, the future of the State is closely tied to that of its only public university, and the framework and priorities will guide University planning, helping to build and sustain a Nebraska that offers its citizens educational and economic opportunity and a high quality of life.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

STATEMENTS OF NET ASSETS

JUNE 30, 2005 and 2004

(Thousands)

(See Independent Auditors' Report on Pages 1 and 2)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 217,060	\$ 207,825
Cash and cash equivalents - restricted	226,269	321,541
Investments - restricted	48,511	37,585
Accounts receivable and unbilled charges, net	96,371	93,138
Loans to students, net	8,389	8,171
Other current assets	14,260	14,145
Total current assets	<u>610,860</u>	<u>682,405</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	1,543	682
Investments - restricted	265,062	217,336
Investment in joint venture	163,084	147,866
Loans to students, net of current portion	28,362	28,148
Capital assets, net of accumulated depreciation	1,086,969	998,446
Other non-current assets	16,276	13,628
Total non-current assets	<u>1,561,296</u>	<u>1,406,106</u>
Total assets	<u>2,172,156</u>	<u>2,088,511</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	50,742	54,459
Accrued salaries, wages, and post-retirement benefits	34,889	27,018
Accrued compensated absences	13,488	11,440
Bond obligations payable	24,880	14,360
Capital lease obligations	3,682	3,252
Deferred revenues and credits	61,742	57,118
Health and other insurance claims	10,555	9,579
Total current liabilities	<u>199,978</u>	<u>177,226</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages and post-retirement benefits, net of current portion	1,462	1,472
Accrued compensated absences, net of current portion	31,068	29,918
Bond obligations payable, net of current portion	343,715	368,595
Capital lease obligations, net of current portion	13,578	10,096
Deferred revenues and credits, net of current portion	8,214	7,271
Total non-current liabilities	<u>398,037</u>	<u>417,352</u>
Total liabilities	<u>598,015</u>	<u>594,578</u>
NET ASSETS:		
Invested in capital assets, net of related debt	733,777	702,947
Restricted for:		
Nonexpendable:		
Permanent endowment	182,941	174,577
Expendable:		
Externally restricted funds	111,000	119,575
Loan funds	43,783	42,551
Plant construction	24,523	12,740
Debt service	81,874	76,734
Unrestricted	396,243	364,809
Total net assets	<u>\$1,574,141</u>	<u>\$1,493,933</u>

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 458	\$ 615
Temporary cash investments	143,353	146,195
Advances and deposits	8	8
Accounts receivable (net of reserve for bad debts of \$13 in 2005 and \$406 in 2004)	488	372
Accrued interest receivable	1,757	1,753
Student loan receivable	505	636
Matching funds receivable	1	1
Prepaid expenses	78	110
Pledges receivable - restricted	77,933	75,107
Investments - restricted	994,611	911,345
Property and equipment, net of depreciation	<u>5,984</u>	<u>6,364</u>
Total assets	<u>\$ 1,225,176</u>	<u>\$ 1,142,506</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Advances and accounts payable	\$ 295	\$ 772
University of Nebraska benefits payable	2,078	1,685
Scholarships, research, fellowships, and professorships payable	4,257	3,245
Accrued vacation payable	475	423
Taxes payable	53	35
Deferred annuities payable	22,903	22,583
Deposits held in custody for others	<u>176,317</u>	<u>166,629</u>
Total liabilities	<u>206,378</u>	<u>195,372</u>
NET ASSETS:		
Unrestricted	8,335	9,363
Temporarily restricted	318,399	307,749
Permanently restricted	<u>692,064</u>	<u>630,022</u>
Total net assets	<u>1,018,798</u>	<u>947,134</u>
Total liabilities and net assets	<u>\$ 1,225,176</u>	<u>\$ 1,142,506</u>

See notes to financial statements

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

(See Independent Auditors' Report on Pages 1 and 2)

	2005	2004
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$53,849 and \$46,201 in 2005 and 2004)	\$ 186,987	\$ 168,882
Federal grants and contracts - restricted	271,603	250,092
State and local grants and contracts - restricted	28,019	25,770
Private grants and contracts - restricted	83,357	77,195
Sales and services of educational activities	47,802	44,536
Sales and services of health care entities	112,471	109,069
Sales and services of auxiliary operations	106,852	107,883
Sales and services of auxiliary segments (net of scholarship allowances of \$6,225 and \$5,932)	56,461	53,011
Other operating revenues	11,765	8,747
Total operating revenues	<u>905,317</u>	<u>845,185</u>
OPERATING EXPENSES:		
Salaries and wages	629,072	608,205
Benefits	163,068	144,885
Total compensation and benefits	792,140	753,090
Supplies and materials	207,229	196,228
Contractual services	95,073	87,283
Repairs and maintenance	43,922	39,516
Utilities	27,812	26,612
Communications	12,059	12,449
Depreciation	57,583	52,227
Scholarships and fellowships	111,083	103,924
Total operating expenses	<u>1,346,901</u>	<u>1,271,329</u>
OPERATING LOSS	<u>(441,584)</u>	<u>(426,144)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska noncapital appropriations	398,933	390,188
Gifts	53,089	46,625
Investment income (net of investment management fees of \$148 and \$142)	27,836	31,518
Increase in fair value of investments	4,655	18,577
Interest income on loans receivable	465	572
Interest expense on bond obligations	(18,855)	(15,730)
Capitalized interest on bond obligations	6,442	-
Equity in earnings of joint venture	18,218	19,349
Net non-operating revenues	<u>490,783</u>	<u>491,099</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>49,199</u>	<u>64,955</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	12,976	9,309
Capital grants and gifts	19,750	21,575
U.S. Government advances	1,394	546
Private gifts and bequests for permanent endowments	1,227	2,110
Loss on disposal of capital assets	(4,338)	(6,030)
Net other revenues, expenses, gains, or losses	<u>31,009</u>	<u>27,510</u>
INCREASE IN NET ASSETS	80,208	92,465
NET ASSETS:		
Net assets, beginning of year	<u>1,493,933</u>	<u>1,401,468</u>
Net assets, end of year	<u>\$1,574,141</u>	<u>\$1,493,933</u>

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(Thousands)

(See Independent Auditors' Report on Pages 1, 2, and 3)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Gifts, bequests, and life insurance proceeds	\$ 56	\$ 44,817	\$ 33,795	\$ 78,668
Investment income	14,554	13,553	(696)	27,411
Realized gain (loss) on sale of assets	(14)	1,666	45,667	47,319
Unrealized gain (loss) on assets	-	2,356	13,215	15,571
	<u>14,596</u>	<u>62,392</u>	<u>91,981</u>	<u>168,969</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>81,681</u>	<u>(56,038)</u>	<u>(25,643)</u>	<u>-</u>
Total support and revenue	<u>96,277</u>	<u>6,354</u>	<u>66,338</u>	<u>168,969</u>
EXPENSES:				
Salaries and wages	6,916	-	-	6,916
Payroll taxes	489	-	-	489
Employee benefits	1,066	-	-	1,066
Annuity payments	2	-	-	2
Postage	175	-	-	175
Office supplies and expense	103	-	-	103
Professional services	163	-	-	163
Travel and entertainment	368	-	-	368
Telephone	159	-	-	159
Insurance and bonds	100	-	-	100
Repair and maintenance	138	-	-	138
Equipment rental/purchase	38	-	-	38
Office rent	812	-	-	812
University Towers expense	9	-	-	9
Promotion expense	808	-	-	808
Auto expense	73	-	-	73
Dues and subscriptions	119	-	-	119
Alumni associations	508	-	-	508
Miscellaneous expense	94	-	-	94
Data processing expense	6	-	-	6
Recruiting and moving expense	17	-	-	17
Meetings and conferences	224	-	-	224
Investment expense	4,347	-	-	4,347
Academic support	22,347	-	-	22,347
Student assistance	18,614	-	-	18,614
Faculty assistance	4,101	-	-	4,101
Research	5,680	-	-	5,680
Museum, library, and fine arts	1,924	-	-	1,924
Campus and building improvements	24,273	-	-	24,273
Deferred compensation	42	-	-	42
Paid to beneficiaries	2,901	-	-	2,901
Bad debt and collection expense	31	-	-	31
Depreciation	658	-	-	658
Total	<u>97,305</u>	<u>-</u>	<u>-</u>	<u>97,305</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS AND CHANGES	(1,028)	6,354	66,338	71,664
TRANSFERS AND RECLASSIFICATIONS BETWEEN FUNDS	<u>-</u>	<u>4,296</u>	<u>(4,296)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(1,028)	10,650	62,042	71,664
NET ASSETS, beginning of year	<u>9,363</u>	<u>307,749</u>	<u>630,022</u>	<u>947,134</u>
NET ASSETS, end of year	<u>\$ 8,335</u>	<u>\$318,399</u>	<u>\$692,064</u>	<u>\$ 1,018,798</u>

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004
(Thousands)

(See Independent Auditors' Report on Pages 1, 2, and 3)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Gifts, bequests, and life insurance proceeds	\$ 62	\$ 40,811	\$ 21,732	\$ 62,605
Investment income	14,044	9,663	(2,598)	21,109
Realized gain (loss) on sale of assets	(7)	(968)	35,358	34,383
Unrealized gain (loss) on assets	-	6,795	64,138	70,933
	<u>14,099</u>	<u>56,301</u>	<u>118,630</u>	<u>189,030</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>75,136</u>	<u>(51,103)</u>	<u>(24,033)</u>	<u>-</u>
Total support and revenue	<u>89,235</u>	<u>5,198</u>	<u>94,597</u>	<u>189,030</u>
EXPENDITURES:				
Salaries and wages	6,417	-	-	6,417
Payroll taxes	448	-	-	448
Employee benefits	977	-	-	977
Annuity payments	2	-	-	2
Postage	212	-	-	212
Office supplies and expense	97	-	-	97
Professional services	122	-	-	122
Travel and entertainment	330	-	-	330
Telephone	123	-	-	123
Insurance and bonds	93	-	-	93
Repair and maintenance	107	-	-	107
Equipment rental/purchase	50	-	-	50
Office rent	766	-	-	766
University Towers expense	8	-	-	8
Promotion expense	751	-	-	751
Auto expense	63	-	-	63
Dues and subscriptions	74	-	-	74
Alumni associations	508	-	-	508
Miscellaneous expense	91	-	-	91
Recruiting and moving expense	16	-	-	16
Meetings and conferences	191	-	-	191
Investment expense	4,067	-	-	4,067
Academic support	23,927	-	-	23,927
Student assistance	18,682	-	-	18,682
Faculty assistance	3,610	-	-	3,610
Research	3,826	-	-	3,826
Museum, library, and fine arts	1,815	-	-	1,815
Campus and building improvements	18,448	-	-	18,448
Deferred compensation	42	-	-	42
Paid to beneficiaries	2,841	-	-	2,841
Bad debt and collection expense	(2)	-	-	(2)
Depreciation	669	-	-	669
Total	<u>89,371</u>	<u>-</u>	<u>-</u>	<u>89,371</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS AND CHANGES	(136)	5,198	94,597	99,659
TRANSFERS AND RECLASSIFICATIONS BETWEEN FUNDS	<u>-</u>	<u>3,346</u>	<u>(3,346)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(136)	8,544	91,251	99,659
NET ASSETS, beginning of year	<u>9,499</u>	<u>299,205</u>	<u>538,771</u>	<u>847,475</u>
NET ASSETS, end of year	<u>\$ 9,363</u>	<u>\$ 307,749</u>	<u>\$ 630,022</u>	<u>\$ 947,134</u>

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

(See Independent Auditors' Report on Pages 1 and 2)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 373,819	\$ 339,978
Tuition and fees	185,529	169,486
Sales and services of health care entities	114,676	108,967
Sales and services of auxiliary operations	110,062	108,046
Sales and services of educational activities	68,125	62,205
Sales and services of auxiliary segments	56,649	50,468
Student loans collected	8,967	8,739
Other receipts	14,670	6,870
Payments to employees	(750,560)	(749,258)
Payments to vendors	(432,264)	(379,339)
Scholarships paid to students	(111,082)	(103,924)
Student loans issued	(9,476)	(10,293)
Other payments	(314)	(139)
Net cash flows used in operating activities	<u>(371,199)</u>	<u>(388,194)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	399,324	390,083
Private gifts and grants for operating use	53,066	46,188
Private gifts and bequests for endowment use	1,227	2,111
Net cash flows from noncapital financing activities	<u>453,617</u>	<u>438,382</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	-	161,210
Grants and contracts	16,680	28,920
State of Nebraska capital appropriations	12,971	9,367
U.S. Government advances	1,394	547
Purchases of capital assets	(134,237)	(116,686)
Defeasance of bond obligations	-	(19,291)
Interest paid on bond obligations	(20,087)	(12,987)
Principal paid on bond obligations	(14,360)	(12,568)
Payments made on lease obligations	(8,634)	(4,500)
Net cash flows from capital and related financing activities	<u>(146,273)</u>	<u>34,012</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	116,224	154,966
Purchases of investments	(168,324)	(159,469)
Interest on investments	27,320	31,693
Distributions received from joint venture	3,000	3,000
Interest on loans receivable	459	571
Net cash flows from investing activities	<u>(21,321)</u>	<u>30,761</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(85,176)	114,961
CASH AND CASH EQUIVALENTS, beginning of year	<u>530,048</u>	<u>415,087</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 444,872</u>	<u>\$ 530,048</u>

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

(See Independent Auditors' Report on Pages 1 and 2)

	<u>2005</u>	<u>2004</u>
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 217,060	\$ 207,825
Cash and cash equivalents - restricted (current)	226,269	321,541
Cash and cash equivalents - restricted (non-current)	<u>1,543</u>	<u>682</u>
Cash and cash equivalents - end of year	<u>\$ 444,872</u>	<u>\$ 530,048</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (441,584)	\$ (426,144)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	57,583	52,227
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(5,121)	(13,207)
Loans to students	(432)	(1,401)
Other current assets	(974)	(1,263)
Accounts payable	3,937	2,453
Accrued salaries, wages, and post-retirement benefits	11,058	3,782
Deferred revenues and credits	4,003	(3,883)
Health and other insurance claims	<u>331</u>	<u>(758)</u>
Net cash flows from operating activities	<u>\$ (371,199)</u>	<u>\$ (388,194)</u>
NONCASH TRANSACTIONS:		
Capital gifts and grants	\$ 877	\$ 697
Increase in fair value of investments	4,655	18,577
Purchase of capital assets through lease obligations	12,546	8,133

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 71,664	\$ 99,659
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	658	669
Gain on sale of assets	(47,319)	(34,382)
Appreciation of assets	(15,571)	(70,933)
(Increase) decrease in pledges receivable	(2,826)	13,494
Increase in deferred annuities payable	320	1,012
Contribution to permanently restricted endowment funds	(33,795)	(21,732)
Real and personal property contributions received for the University	(1,126)	(295)
(Increase) decrease in:		
Accounts receivable	(116)	(101)
Interest receivable	(4)	(173)
Prepaid expense	32	(61)
Increase (decrease) in:		
Advances and accounts payable	(477)	(30)
University of Nebraska benefits payable	394	688
Scholarships, research, fellowships, and professorships payable	1,012	1,672
Accrued vacation payable	52	18
Taxes payable	17	20
Deposits held in custody for others	5,841	23,892
Total adjustments	<u>(92,908)</u>	<u>(86,242)</u>
Net cash provided by operating activities	<u>(21,244)</u>	<u>13,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in temporary cash investments	2,842	(12,962)
Net decrease in student loans	132	83
Net purchases in investments	(15,407)	(21,611)
Purchase of property and equipment	(282)	(183)
Sales of property and equipment	6	9
Net cash used in investing activities	<u>(12,709)</u>	<u>(34,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution to permanently restricted endowment funds	<u>33,796</u>	<u>21,732</u>
Net cash provided by financing activities	<u>33,796</u>	<u>21,732</u>
NET INCREASE IN CASH	(157)	485
CASH AND CASH EQUIVALENTS, beginning of year	<u>615</u>	<u>130</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 458</u>	<u>\$ 615</u>

REQUIRED DISCLOSURE:

The Foundation expended no cash for interest or income taxes.

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The University of Nebraska (the University) is a land-grant University founded in 1869 and governed by an elected eight-member University of Nebraska Board of Regents (the Board of Regents). University activities are conducted at four primary campuses, with two located in Omaha and one each in Lincoln and Kearney, Nebraska. While the University is a legally separate entity, it is a component unit of the State of Nebraska (the State) because it is financially accountable to the State. The major accounting principles and practices followed by the University are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB has issued GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The University follows the “business-type” activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to financial statements

The University follows all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements, and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

In 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 address disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk, and concentration of credit risk. This pronouncement requires additional disclosures to be presented in the notes but has no impact on the net assets of the University.

Reporting Entity – Certain affiliated organizations for which the Board of Regents has financial accountability are included in the University's financial statements as component units.

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The University's financial reporting entity consists of the following component units. Their balances and transactions are blended into the accompanying financial statements and reported in a manner similar to the balances and transactions of the University itself.

- The University of Nebraska Facilities Corporation (UNFC) was organized to finance the construction, repair, and renovation of buildings and the acquisition of land and equipment and to hold them in trust for the University. UNFC is governed by a Board of Directors comprised of the Board of Regents.
- The University Medical Associates (UMA) was organized for the purpose of billing, collecting and distributing medical service fees generated by clinicians employed by the University of Nebraska Medical Center (UNMC). UMA is governed by the Board of Regents. The distribution of fees is governed by the terms of the University of Nebraska Medical Services Plan applicable to the member clinicians.
- UNeMed was organized to develop and market biomedical technologies for the University and pay all related patent costs. UNeMed acts under the authority of the Board of Regents and their fiscal year-end is December 31.
- The University Dental Associates (UDA) was organized for the purpose of billing, collecting and distributing dental service fees generated by dentists employed by the UNMC. UDA is governed by the Board of Regents. The distribution of fees is governed by the terms of the University of Nebraska Dental Service Plan applicable to the member dentists.
- Nebraska Utility Corporation (NUCorp) is a not-for-profit corporation formed under the Nebraska Interlocal Cooperation Act between the Board of Regents and Lincoln Electric System. The purpose of NUCorp is to purchase, lease, construct, and finance activities relating to furnishing energy requirements and utility and infrastructure facilities for the University of Nebraska-Lincoln (UNL). NUCorp is governed by a five-member Board, three of which are University officials. NUCorp's fiscal year-end is December 31.
- The Peter Kiewit Institute Technology Development Corporation (PKITDC) is a not-for-profit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research.

Separate financial statements for UNFC, UMA, UNeMed, UDA, and NUCorp may be obtained from the University of Nebraska Central Administration, Varner Hall, 3835 Holdrege, Lincoln, Nebraska 68583-0742.

The University adopted the guidance of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14, as of July 1, 2003. This Statement provides guidance to determine whether certain organizations for which the University is not financially accountable should be reported as a component unit based on the nature and significance of the relationship. As a result of this guidance, the University of Nebraska Foundation's (the Foundation)

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financial statements are discreetly presented within the University's financial statements. The Foundation is a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code whose purpose is to provide financial support for the University system. The Foundation reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented (see Notes P and Q).

Basis of Presentation – The financial statements of the University have been prepared on the accrual basis. The University recognizes revenues, net of discounts and allowances, when it is earned. Expenses are recorded when a liability is incurred. The University first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. All significant revenues and expenses resulting from intra-University transactions have been eliminated.

Cash and Cash Equivalents – Cash and cash equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the University based upon average daily balances. These funds are considered to be cash and cash equivalents which are available for expenditures as needed. The investments of the pool include Commercial Paper, U.S. Government Securities, Federal Agency Debt Instruments, Corporate Bonds, Money Market Funds, and Bank Deposits. Additional information on the pool can be found in the State of Nebraska's Comprehensive Annual Financial Report.

For purposes of the statements of cash flows, cash includes cash and cash equivalents, both unrestricted and restricted, and investments with an original maturity of three months or less when purchased.

Investments – Investments are stated at fair value. Securities that are publicly traded are valued based on quoted market prices. Investments that do not have an established market are reported at estimated fair value. Investments received from donors as gifts are recognized as revenue at fair value at the date of the gift. Income from investments is recognized as earned and includes realized and unrealized gains and losses.

Investment in Joint Venture – Investment in joint venture is accounted for under the equity method.

Capital Assets – Land improvements, leasehold improvements, buildings, and equipment are stated at cost at the date of acquisition. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets except at UNL, which are accounted for on a componentized basis. The estimated useful lives are 25 to 50 years for buildings and their components and 20 to 30 years for land improvements. Equipment is generally depreciated from 2 to 10 years depending on its useful life. Leasehold improvements are depreciated using the straight-line method over the aforementioned estimated useful lives or the term of the related lease, if shorter. Maintenance, repairs, and minor replacements are charged to expense as incurred. The University maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures, and literature.

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Capital assets are defined by the University as assets with initial, individual costs in excess of \$500 for buildings and renovations, \$100 for land improvements, and \$5 for equipment.

The University has artwork and other collections that it does not capitalize. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Accrued Compensated Absences – University faculty and staff earn 12 to 25 days of vacation each year and may carry over up to one year of accrued vacation into the next year. In future years, accrued vacation may be used or received as a cash payment upon retirement or termination. In addition, certain classified staff receive a cash payment of one-fourth of accrued sick leave upon retirement from the University. The University has recognized a liability for sick and annual leave earned but not yet taken by its faculty and staff. Certain University faculty and staff also earn four floating holidays each year, which may be taken at any time during the year. Unused floating holidays expire at calendar year-end.

Deferred Revenues and Credits – These consist of advance payments on athletic tickets, fall semester student residence hall contracts, tuition deposits, unearned income on direct financing leases, and cash received in advance for grants and contracts.

Amortization of Bond Financial Expense and Bond Premium or Discount – Bond financial expense and premium or discount are being amortized or accreted to interest expense on a method that approximates the level yield method.

Classification of Revenues – The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts and federal appropriations, and interest on student loans.

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, State appropriations, investment income, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34.

Unrestricted Gifts – Revenue is recognized when an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received.

Scholarships and Fellowships – The University receives funds that are restricted by donors and grantors for aid to students. When these funds are granted to students or when scholarships and fellowships are provided through student tuition waiver, the University records the expense for student aid and the

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corresponding revenue. Accordingly, at June 30, 2005 and 2004, Federal grants and contracts includes Pell grant awards amounting to \$20,007 and \$20,345 and Ford direct student loans amounting to \$71,277 and \$67,805, respectively. The combined awards of \$91,284 and \$88,150 at June 30, 2005 and 2004, respectively, are also included in Scholarships and Fellowships expense. For employee tuition waivers, the University records a benefit expense and corresponding revenue.

Health and Other Insurance Claims – The University is partially self-insured for comprehensive general liability, property losses, and group health and dental liability. Its estimated liability is being funded annually and reflected as an expense.

Environmental – Environmental assessments are performed when environmental issues are identified on property owned by the Board of Regents. The cost of any assessments are expensed as incurred. Any cost of remediation is accrued when the University's obligation is probable and the amount can be reasonably estimated or determined.

Tax Status – The University qualifies as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required. However, income from unrelated activities is subject to federal and state income taxes. No provision is deemed necessary for any income taxes associated with unrelated activities.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain 2004 amounts have been reclassified to conform to the current year presentation.

Recent Statements Issued by the Government Accounting Standards Board – The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of capital assets. The University has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The University has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

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The GASB also issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this statement is effective for financial statements for periods beginning after June 15, 2005. The University has not yet determined the effect that the adoption of GASB Statement No. 47 may have on the financial statements.

B. CASH AND CASH EQUIVALENTS

The University's cash and cash equivalents are deposited in a pooled State fund managed by the Nebraska State Treasurer or in financial institutions. Bank balances of cash and cash equivalents deposited in banks amounted to approximately \$2,090 (book balance of approximately \$1,176) at June 30, 2005, with approximately \$1,519 at June 30, 2005, covered by federal depository insurance. Bank balances of cash and cash equivalents deposited in banks amounted to approximately \$2,634 (book balance of approximately \$1,562) at June 30, 2004, with approximately \$1,778 at June 30, 2004, covered by federal depository insurance. Of the remaining bank balance at June 30, 2005 and 2004, approximately \$347 and \$551 was collateralized with securities held by the pledging financial institution, but not in the University's name, and approximately \$224 and \$305 was uninsured and uncollateralized, respectively. Interest income amounted to approximately \$10,926 and \$10,922 and is included in non-operating revenue at June 30, 2005 and 2004, respectively.

C. INVESTMENTS

Funds held for the support of University operations, excluding trust funds, are invested according to State statute by the State Investment Officer. Regulatory oversight is provided by the Nebraska Investment Council. The University's fair value in the Nebraska Investment Council's investment pool is equal to its pool units. University trust funds are invested by the University in accordance with the prudent person rule as established by the University. The prudent person rule places no restrictions on the investment of these funds.

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Investments are as follows for the year-ended June 30, 2005:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
U.S. treasuries	\$ 16,319	\$ 4,417	\$ 6,940	\$ 4,501	\$ 461
U.S. agencies	63,129	37,340	23,295	1,506	988
Corporate debt	21,950	1,136	16,098	3,390	1,326
Repurchase agreements	<u>5,823</u>	<u>-</u>	<u>-</u>	<u>5,823</u>	<u>-</u>
	107,221	<u>\$ 42,893</u>	<u>\$ 46,333</u>	<u>\$ 15,220</u>	<u>\$ 2,775</u>
Other investments:					
Equity securities - domestic	111,516				
Equity securities - international	12,880				
Mutual funds	68,008				
Real estate held for investment purposes	8,164				
Money markets	<u>5,784</u>				
Total	<u>\$ 313,573</u>				

Investments are as follows for the year-ended June 30, 2004:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
U.S. treasuries	\$ 9,828	\$ 3,017	\$ 3,246	\$ 3,362	\$ 203
U.S. agencies	25,825	5,998	17,852	1,366	609
Corporate debt	18,834	728	14,097	3,008	1,001
Repurchase agreements	<u>5,823</u>	<u>-</u>	<u>-</u>	<u>5,823</u>	<u>-</u>
	60,310	<u>\$ 9,743</u>	<u>\$ 35,195</u>	<u>\$ 13,559</u>	<u>\$ 1,813</u>
Other investments:					
Equity securities - domestic	104,553				
Equity securities - international	11,033				
Mutual funds	68,746				
Real estate held for investment purposes	5,509				
Money markets	<u>4,770</u>				
Total	<u>\$ 254,921</u>				

Interest Rate Risk – The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University’s investments are in the following investment types at June 30:

	<u>2005</u>	<u>2004</u>
	Concentration	
Federal Home Loan Bank	16%	17%
Federal National Mortgage Association	33%	12%
U.S. treasuries	15%	18%
Federal Farm Credit Bank	7%	12%
FSA Capital Markets Services	5%	N/A

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are stated at fair value and are uninsured, unregistered, and held by the trustee or an agent, but not in the name of the University. Of the University’s \$5.8 million investment in repurchase agreements in 2005 and 2004, \$6.2 million of underlying securities are held by the investment’s counterparty, but not in the name of the University.

D. ACCOUNTS RECEIVABLE, UNBILLED CHARGES, AND LOANS TO STUDENTS

Substantially all amounts included in accounts receivable and unbilled charges represent tuition receivables, grant reimbursements, unbilled charges, patient accounts receivable and other receivables. Balances are stated net of allowances for doubtful accounts and contractual adjustments of approximately \$6,347 and \$7,167 at June 30, 2005 and 2004, respectively. In addition, the University maintains an allowance for doubtful collections of student loans of approximately \$1,762 and \$1,385 at June 30, 2005 and 2004, respectively.

E. INVESTMENT IN JOINT VENTURE

The University and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 forming the Nebraska Health System, a Nebraska nonprofit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint venture under the equity method. The University has recorded 50% equity in earnings of NMC for the years ended June 30, 2005 and 2004 totaling \$18,218 and \$19,349, respectively. In addition, to the extent that sufficient funds are available, as determined by the NMC Board of Directors, the University will receive an annual capital distribution. A distribution of \$3,000 was declared and paid out during both fiscal years 2005 and 2004.

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Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42nd Street and Dewey Avenue, Omaha, Nebraska 68105.

In conjunction with the Joint Operating Agreement, the University entered into an agreement to lease the former hospital building to NMC that extends through 2037. The hospital building is recorded at approximately \$131,000 and is included in the University's financial statements. Following are the minimum lease rental payments due from NMC:

Fiscal Year Ending June 30:

2006	\$ 4,009
2007	4,000
2008	4,009
2009	3,996
2010	4,004
2011-2014	<u>5,836</u>
	<u>\$ 25,854</u>

In addition, the University and NMC have entered into an Academic Affiliation Agreement for Education and Research. In connection with the agreement, NMC has agreed to financially support certain educational, research, operational, and clinical activities of the University College of Medicine that further the mission and objectives of NMC. During the fiscal years ended June 30, 2005 and 2004, respectively, the University received approximately \$21,678 and \$21,035 of support in connection with the agreement.

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F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2005 and 2004 is as follows:

	2005			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 47,797	\$ 5,169	\$ (177)	\$ 52,789
Land improvements	81,707	18,254	(7,228)	92,733
Leasehold improvements	12,534	675	-	13,209
Buildings	1,006,792	72,607	(31,924)	1,047,475
Equipment	228,803	27,736	(16,118)	240,421
Construction work in progress	92,914	111,231	(79,211)	124,934
Total capital assets	<u>1,470,547</u>	<u>235,672</u>	<u>(134,658)</u>	<u>1,571,561</u>
Less accumulated depreciation for:				
Land improvements	30,043	3,499	(860)	32,682
Leasehold improvements	305	455	-	760
Buildings	299,829	31,736	(29,818)	301,747
Equipment	141,924	21,893	(14,414)	149,403
Total accumulated depreciation	<u>472,101</u>	<u>57,583</u>	<u>(45,092)</u>	<u>484,592</u>
Capital assets, net	<u>\$ 998,446</u>	<u>\$178,089</u>	<u>\$ (89,566)</u>	<u>\$1,086,969</u>
	2004			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 45,071	\$ 2,726	\$ -	\$ 47,797
Land improvements	73,972	11,596	(3,861)	81,707
Leasehold improvements	-	12,534	-	12,534
Buildings	955,501	91,267	(39,976)	1,006,792
Equipment	219,544	25,630	(16,371)	228,803
Construction work in progress	101,346	101,160	(109,592)	92,914
Total capital assets	<u>1,395,434</u>	<u>244,913</u>	<u>(169,800)</u>	<u>1,470,547</u>
Less accumulated depreciation for:				
Land improvements	30,593	2,932	(3,482)	30,043
Leasehold improvements	-	305	-	305
Buildings	307,402	30,476	(38,049)	299,829
Equipment	134,822	18,514	(11,412)	141,924
Total accumulated depreciation	<u>472,817</u>	<u>52,227</u>	<u>(52,943)</u>	<u>472,101</u>
Capital assets, net	<u>\$ 922,617</u>	<u>\$192,686</u>	<u>\$ (116,857)</u>	<u>\$ 998,446</u>

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G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences is as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2005	<u>\$ 41,358</u>	<u>\$ 30,704</u>	<u>\$ (27,506)</u>	<u>\$ 44,556</u>	<u>\$ 13,488</u>
2004	<u>\$ 39,559</u>	<u>\$ 30,646</u>	<u>\$ (28,847)</u>	<u>\$ 41,358</u>	<u>\$ 11,440</u>

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable is as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2005	<u>\$ 382,955</u>	<u>\$ -</u>	<u>\$ (14,360)</u>	<u>\$ 368,595</u>	<u>\$ 24,880</u>
2004	<u>\$ 253,135</u>	<u>\$ 161,210</u>	<u>\$ (31,390)</u>	<u>\$ 382,955</u>	<u>\$ 14,360</u>

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Bond obligations payable at June 30, 2005 and 2004 consists of the following:

		2005		2004
	Interest Rate	Annual Installment	Principal Amount Outstanding	Principal Amount Outstanding
Obligations under the master trust indenture:				
University of Nebraska-Lincoln:				
Student fees and facilities:				
Series 2002, revenue refunding, due through July 2016	2.30 - 5.00%	\$900 - \$2,760	\$ 14,455	\$ 15,325
Series 2003A, revenue bonds, due through July 2037	2.95 - 5.25%	405 - 1,595	25,930	25,930
Series 2003B, revenue bonds, due through July 2038	2.50 - 5.00%	1,085 - 3,890	68,885	68,885
Lincoln parking project:				
Series 2000, parking revenue bonds, due through June 2021	4.95 - 5.80%	765 - 3,685	18,885	19,615
Series 2003, revenue refunding, due through June 2016	2.00 - 4.50%	670 - 1,615	7,525	8,180
University of Nebraska at Omaha:				
Student center Series 2003:				
Revenue refunding bonds, due through May 2013	2.00 - 3.90%	485 - 1,180	4,855	5,335
Student housing Series 2003:				
Revenue bonds, due through May 2033	1.75 - 5.00%	310 - 945	15,095	15,400
University of Nebraska Medical Center:				
Student housing revenue bonds				
Series 2003, due through June 2033	1.80 - 5.00%	110 - 330	5,320	5,430
Other University obligations:				
University of Nebraska at Kearney:				
Student fees and facilities:				
Series 1966, due through July 2006	4.3%	505	505	990
Series 2000, due through July 2020	4.90 - 5.50%	240 - 1,150	5,895	6,125
Series 2003, due through July 2011	1.45 - 2.90%	300 - 405	2,495	3,100
University of Nebraska-Lincoln:				
Athletics:				
2004A, revenue refunding, due November 2024	4.00 - 5.25%	1,695 - 5,195	53,330	53,330
2004B, revenue refunding, due November 2024	2.50 - 5.25%	1,825 - 3,270	11,050	11,050
Total University Obligations			<u>234,225</u>	<u>238,695</u>
Obligations of blended entities:				
University of Nebraska Facilities Corporation:				
Series 1998 bonds (deferred maintenance project), due through July 2011	4.15 - 5.25%	225 - 8,570	51,435	58,200
Series 1998-2 bonds (UNMC electrical system project) due through October 2008	3.90 - 4.30%	235 - 275	1,035	1,270
Series 2002 bonds (Research Center of Excellence project), due through February 2015	3.50 - 5.00%	2,790 - 21,215	53,905	56,695
Series 2003 (Alexander building project), due through December 2023	1.35 - 5.00%	100 - 205	2,705	2,805
Series 2004 (library storage project), due through July 15, 2024	1.55 - 5.00%	80 - 585	3,410	3,410
Nebraska Utility Corporation (NUCorp):				
Series 2001 revenue bonds, due through January 2023	4.50 - 5.25%	720 - 1,620	21,880	21,880
Total obligation of blended entities			<u>134,370</u>	<u>144,260</u>
Total bond obligation payable			<u>\$368,595</u>	<u>\$ 382,955</u>

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Annual maturities subject to mandatory redemption at June 30, 2005 are as follows:

	Total University		UNFC		Nebraska Utilities Corporation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 8,115	\$ 10,915	\$ 16,765	\$ 5,276	\$ -	\$ 1,100	\$ 24,880	17,291
2007	9,080	10,590	12,190	4,528	720	1,084	21,990	16,202
2008	9,865	10,237	11,585	3,938	750	1,051	22,200	15,226
2009	12,365	9,775	11,700	3,368	785	1,017	24,850	14,160
2010	15,335	9,288	11,840	2,795	815	983	27,990	13,066
2011-2015	45,005	39,308	44,690	8,092	5,465	4,260	95,160	51,660
2016-2020	49,860	29,264	1,595	723	7,340	2,559	58,795	32,546
2021-2025	38,025	16,909	2,125	288	6,005	651	46,155	17,848
Thereafter	46,575	16,602	-	-	-	-	46,575	16,602
Total	<u>\$234,225</u>	<u>\$152,888</u>	<u>\$112,490</u>	<u>\$29,008</u>	<u>\$21,880</u>	<u>\$12,705</u>	<u>\$368,595</u>	<u>\$194,601</u>

At June 30, 2005 and 2004, the trustees for these bond funds held cash and investments in the amount of approximately \$161,265 and \$224,547, respectively, which is reflected as restricted cash and investments on the statements of net assets.

Master Trust Indenture - The Board of Regents entered into a master trust indenture dated as of June 1, 1995 (as amended and supplemented from time to time, the Indenture) with a fiduciary with respect to the facilities (including student housing, student unions, student health facilities, and parking facilities) from which the Board of Regents derives revenues, fees, and earnings. The Indenture provides for the formation of an Obligated Group for the purpose of achieving lower borrowing costs through sharing accumulated excess revenues and earnings derived from such facilities. As of June 30, 2005, the members of the Obligated Group are (a) the student housing, student unions, and student health facilities on the University of Nebraska - Lincoln campuses (UNL Student Fees and Facilities), (b) the parking facilities on the University of Nebraska - Lincoln campuses (UNL Parking), (c) the Student Center at the University of Nebraska at Omaha (UNO Student Center) (d) certain student housing facilities at the University of Nebraska at Omaha (UNO Student Housing), and (e) certain Student housing facilities at the University of Nebraska Medical Center (UNMC Student Housing) (collectively, the Obligated Group). The accumulated surplus revenues, fees, and other payments of such Obligated Group have been jointly pledged to the payment of revenue bonds issued with respect to such facilities. Other facilities will be added to the Obligated Group and the revenues, fees, and other payments derived from such facilities will be pledged under the Indenture in the future as circumstances permit.

Pledged Revenues – Pledged revenues of the Obligated Group under the master trust indenture are defined as all of the revenues of each member that remain after payment of the expenses of such member. Pledged revenues do not include any balances in any debt service fund or debt service reserve fund, but shall include any balances in other reserve, replacement, or contingency fund and any surplus fund held for or on behalf of such members of the Obligated Group under a related resolution.

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For the University of Nebraska at Kearney (UNK) Student Fees and Facilities and UNL Athletics Bonds, net revenues from student housing and dining facilities, special student fees, certain athletic ticket revenue, and designated donations are pledged to secure the respective bond issues as defined in those bond resolutions. These bond issues and University of Nebraska Facilities Corporation (UNFC) bonds are not obligations of the State and no tax shall ever be levied to raise the funds for the principal payment thereof or the interest or premium thereon. The UNFC bonds do not constitute debt of the Board of Regents of the University, but shall be payable solely out of monies derived from designated tuition revenues, legislative appropriations, and UNMC lease payments.

The bond resolutions specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for each funds' investments. The bond resolutions also require that specified amounts be deposited with the trustee for certain funds. At June 30, 2005 and 2004, the University and UNFC are in compliance with these requirements.

University of Nebraska-Lincoln Memorial Stadium Bonds – In 2004, the Board of Regents authorized the issuance of \$64,380 of Series 2004A and 2004B bonds (2004 Memorial Stadium Project). The bonds were issued to pay the cost of constructing, equipping, and furnishing improvements to Memorial Stadium and to refund \$12,970 of 1997 UNFC Bonds, Series 1997. The 2004A and 2004B bonds are payable from a gross revenue pledge of certain revenues and fees of the athletic department, with such payment being prior to the payment of expenditures with respect to Memorial Stadium operations. Those revenues and fees include all Memorial Stadium ticket income, current skybox revenues, current club seating revenues, donations with respect to a new premium seating program involving approximately 6,400 seats, and all donations pledged to the construction of the 2004 Memorial Stadium Project.

The bonds are not obligations of the State, nor do they constitute debt of the Board of Regents, but shall be solely from the aforementioned pledged revenues and fees.

University of Nebraska Facilities Corporation

Library Storage Project – In 2004, the UNFC authorized the issuance of \$3,410 of Series 2004 Bonds, dated May 15, 2004.

The library storage and retrieval facility will be approximately 8,975 gross square feet in size, with a high (approximately 35 feet) roof. It will provide a climate-controlled environment for the library's print volumes and other documents. The strictly controlled temperature, humidity, and air quality will minimize the deterioration of the books and other documents.

Principal and interest payments will come from lease payments received from UNL.

Series 2003 Bonds – Alexander Building Project – In 2003, the UNFC authorized the issuance of \$2,935 of Series 2003 Bonds (2003 Project) dated March 6, 2003. The 2003 Project involved the purchase and refurbishing of the Alexander Building, including a heating, ventilation, and air conditioning project on the city campus of UNL.

Principal and interest payments will come from University cash funds.

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Series 2002 Bonds – UNMC Research Center of Excellence Project – In 2002, the UNFC authorized the issuance of \$56,695 of Series 2002 Bonds (2002 Project) dated February 15, 2002. The 2002 Project was created for the purpose of paying a portion of the cost of construction of the Research Center of Excellence (now known as the Durham Research Center) and a multi-level parking structure on the campus of the UNMC in Omaha, Nebraska at a total estimated cost of \$93,000. The UNMC, through the Foundation, has obtained pledges approximating \$85,000 for payment of the costs of these projects. The pledges will be received in installments through 2011. These pledges are augmented with the revenue from a lease agreement with a third party for a portion of the parking structure. Bonds maturing after February 15, 2012 are redeemable at 100% of principal plus accrued interest. The Research Center Project agreement states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2002 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

Series 1998 Bonds – Deferred Maintenance Project – In 1998, the UNFC authorized the issuance of \$80,190 of Series 1998 Bonds (Deferred Maintenance Project) dated July 15, 1998. The Deferred Maintenance Project was created for the purpose of paying the cost of certain deferred maintenance projects on each of the four campuses of the University authorized by Nebraska Legislative Bill 1100 (LB1100). Principal and interest payments on the bonds are secured by existing balances in the University Cash Fund, the University of Nebraska at Omaha Cash Fund, and the University of Nebraska at Kearney Cash Fund. Under LB1100, the Nebraska Legislature has appropriated for repayment \$5,500 each fiscal year through June 30, 2009 which can be modified by the Legislature as specified in LB1100. In addition, the Board of Regents has committed \$5,200 of tuition revenues for repayment for each fiscal year through June 30, 2011.

Series 1998-2 Bonds – UNMC Electrical System Project – In 1998, the UNFC authorized the issuance of \$2,315 of Series 1998 Bonds (UNMC Electrical System Project) dated October 15, 1998. The UNMC Electrical System Project was created for the purpose of constructing and installing an electrical power service line and related facilities to the University of Nebraska Medical Center.

Under the resolution for the UNMC Electrical System Project, the Board of Regents leased from UNFC the real property and improvements comprising the UNMC Electrical System Project and the existing facilities under a Site Lease dated October 15, 1998. In turn, the Board of Regents has agreed to make lease rental payments to UNFC in such amounts and at such times so as to provide sufficient funds with which to make full and timely payments on the UNMC Electrical System Project Bonds. The term of the Site Lease expires when all bonds have been paid in full or the payments of the bonds have been provided for in accordance with the Trust Indenture. The principal and interest payments on the bonds are payable from moneys to be budgeted and appropriated by the Board of Regents.

Nebraska Utilities Corporation

In 2001, the Nebraska Utilities Corporation (NUCorp), an interlocal organization formed with a Lincoln, Nebraska-based utility, authorized the issuance of \$21,880 of Series 2001 bonds. The proceeds from the debt are being utilized to address energy conservation and utility upgrades at UNL. Utility savings generated from these projects will provide funds for repayment of the bonds.

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Prior Year Defeasances – In prior years, the University and its component units defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the University’s financial statements. At June 30, 2005 and 2004 \$24,060 and \$42,145, respectively, of defeased bonds are outstanding.

I. CAPITAL LEASE OBLIGATIONS

The University presently is leasing real property, buildings and equipment with either the option to purchase or transfer of title at the expiration of the lease term, of capital leases outstanding \$11,986 and \$8,831 are leases with the Foundation.

Capital lease obligation activity for the year-ended June 30 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2005	<u>\$ 13,348</u>	<u>\$ 12,546</u>	<u>\$ 8,634</u>	<u>\$ 17,260</u>	<u>\$ 3,682</u>
2004	<u>\$ 10,293</u>	<u>\$ 6,980</u>	<u>\$ 3,925</u>	<u>\$ 13,348</u>	<u>\$ 3,252</u>

Minimum lease payments under capital leases together with the present value of the net minimum lease payments for the year-ended June 30 are:

	Buildings and Properties	Equipment	Total
2006	\$ 3,363	\$ 757	\$ 4,120
2007	3,293	363	3,656
2008	2,482	318	2,800
2009	1,578	34	1,612
2010	1,578	10	1,588
Thereafter	<u>6,693</u>	<u>-</u>	<u>6,693</u>
	18,987	1,482	20,469
Less interest and executory costs	<u>3,157</u>	<u>52</u>	<u>3,209</u>
	<u>\$15,830</u>	<u>\$1,430</u>	<u>\$17,260</u>
Capital assets held under capital lease obligations at June 30, 2005 are as follows:			
Buildings	\$34,431		
Equipment	<u>6,710</u>		
	<u>\$41,141</u>		

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J. HEALTH AND OTHER INSURANCE CLAIMS

Activity in the health and other insurance claims programs is as follows:

	Clinicians Self- Insurance	General Liability	Group Health and Dental	Total
Claim reserve, June 30, 2003	\$ 683	\$ 3,587	\$ 6,001	\$ 10,271
Established claim reserve	1	-	-	1
Incurred claims	(292)	824	75,860	76,392
Payments on claims	<u>358</u>	<u>(982)</u>	<u>(76,461)</u>	<u>(77,085)</u>
Claim reserve, June 30, 2004	750	3,429	5,400	9,579
Established claim reserve	1	-	-	1
Incurred claims	776	720	82,451	83,947
Payments on claims	<u>(132)</u>	<u>(1,389)</u>	<u>(81,451)</u>	<u>(82,972)</u>
Claim reserve, June 30, 2005	<u>\$ 1,395</u>	<u>\$ 2,760</u>	<u>\$ 6,400</u>	<u>\$ 10,555</u>

The Board of Regents provides for protection against comprehensive general liability and property losses through a partially self-insured general liability program. The self-insured program also covers the retained deductible for directors and officers liability and miscellaneous claims not covered by insurance. The Board of Regents has purchased all-risk "blanket" policies for risks not covered by the partially self-insured general liability program. These policies provide for property coverage with a \$200 deductible/\$1,000 annual aggregate, educators legal liability coverage with a \$500 deductible/\$5,000 annual aggregate, and umbrella excess liability coverage for \$20,000 each loss/\$20,000 aggregate. A bank administers the general liability and self-insured trusts including the investments and payment of approved claims. The University estimates a range of loss for general liability and property claims using actuarial studies conducted by outside actuarial firms. The discount rates used by the actuaries for estimation of the claim reserve was 5% for general liability. This estimate is accrued in the accompanying financial statements and includes a reserve for known claims as well as incurred but unreported incidents.

The University participates in the State Excess Liability Fund that provides coverage from \$500 up to \$1,750 for each medical malpractice claim. Settled claims have not exceeded insurance coverage in any of the past three years.

The Board of Regents provides for faculty and staff group health and dental benefits through a self-insurance program. The University accrued an estimate for known and incurred but not reported claims based on claim history adjusted for current trends. A trust agreement with a bank provides for the collection, investment, and administration of premiums and for payment to the third-party administrators for claims paid.

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At June 30, 2005 and 2004, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$37,089 and \$30,190, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents on the statements of net assets.

K. RETIREMENT PLANS

The University has a defined contribution retirement plan currently in effect that the Board of Regents established and has the authority to amend. The plan covers all academic faculty, administrative, and classified staff and provides investment options administered by Teachers Insurance and Annuity Association/College Retirement Equity Fund and Fidelity Investments. Under the plan, faculty and staff are required to contribute 3.5% or 5.5% if they participate in either Tier 1 or Tier 2 of the plan, respectively. The University matches faculty and staff participation by contributing 6% and 7.5% for Tier 1 and Tier 2, respectively. The University's policy is to fund costs accrued on an annual basis.

The University's total payroll for fiscal years 2005 and 2004 was approximately \$631,633 and \$608,790 of which approximately \$482,712 and \$464,875 was covered by the plan, respectively. The University's contribution during 2005 and 2004 was approximately \$34,862, or 7.2%, and \$33,609, or 7.2%, of covered payroll, and the faculty and staff's contribution was approximately \$24,911, or 5.2%, and \$23,964, or 5.2% of, covered payroll, respectively.

Faculty and staff (at least 0.5 FTE) who attain age 26 and have completed 24 months of continuous service are eligible to participate in the retirement plan. Faculty and staff (at least 0.5 FTE) attaining age 30 following 24 months of continuous service are required to participate. The plan benefits are fully vested at the date of contribution.

UMA has two defined contribution money purchase pension plans established under Section 401(a) of the Internal Revenue Code that are administered by a bank. Together, these plans cover substantially all employees who meet age and length of service requirements of the plans. The plans are funded through UMA contributions based upon a fixed percentage of the employees' salary. Total pension expense was \$6,805 and \$6,531 for the years ended June 30, 2005 and 2004, respectively.

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L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of several facilities that are estimated to cost approximately \$272,162. As of June 30, 2005, the approximate remaining costs to complete these facilities were \$91,700, which will be financed as follows:

Bond funds	\$ 38,984
Federal funds	4,478
University funds	13,729
State capital appropriations	547
Private gifts, grants, and contracts	<u>33,962</u>
	<u>\$ 91,700</u>

During the normal course of business, the University receives funds from the United States Government, state and local governments, and private donors for student loans, special projects, research grants, and research contracts. Substantially all of these funds are subject to audit by various federal and state agencies; however, it is the University's opinion that resulting adjustments, if any, would not have a material effect upon the accompanying financial statements.

The University established its Agricultural Research and Development Center on approximately 9,000 acres acquired from the Nebraska Ordnance Plant (NOP) from 1962 to 1971. The Federal government produced munitions at NOP during World War II and the Korean Conflict, exposing the area to contaminants. The University legally disposed of certain materials in the 1970s. In 1990, the NOP became a Federal Superfund site. An administrative order has been entered into between the Board of Regents and the Environmental Protection Agency (EPA) requiring a remedial investigation/feasibility study to determine the extent of contamination and removal actions necessary. A contractual arrangement has been entered into between the Board of Regents and an engineering and consulting firm to perform the remedial investigation/feasibility study. This study is currently underway, but not completed. The cost of remediation and restoration of the area and the liability of affected parties cannot be determined until the completion of the remediation study and selection of remediation methods by the EPA.

The University has other claims and litigation pending, none of which is expected to result in any material loss to the University.

M. RELATED PARTY TRANSACTIONS

The University routinely has transactions with the NMC. The members of the faculty at the University are also members of the medical staff of NMC, and in many other areas, the operations of the University and NMC are integrated and overlap. The University provides certain operational and support services, as well as certain direct financial support to NMC. For the fiscal years ended June 30, 2005 and 2004, NMC purchased approximately \$32,452 and \$23,490 of goods and services from the University, respectively.

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As of June 30, 2005 and 2004, respectively, the University also has advanced NMC a total of \$9,000 and \$6,000 for the construction of the Clinical Center of Excellence. This amount is included in other non-current assets in the statements of net assets.

As of June 30, 2005 and 2004, capital lease obligations include \$9,657 and \$6,476 due to the Foundation under various lease agreements and \$1,558 and \$2,355 due to the Foundation, respectively. The Ballpark Project is a project that constructed new baseball and softball stadiums. The Foundation financed the University's portion of the project by means of an eight-year lease-purchase agreement. The University will meet its debt service obligations by using annual contributions from sponsorships, as well as legally binding pledges from private parties.

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N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year-ended June 30, 2005:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$302,931	\$ 33,688	\$ 7,305	\$ -	\$ 20	\$ 2,813	\$ 2,115	\$ -	\$ 348,872
Research	131,488	35,007	31,026	7,842	74	1,144	1,565	-	208,146
Public service	68,455	12,672	9,948	1,404	586	861	293	-	94,219
Academic support	60,144	14,141	1,852	10,293	8	1,366	111	-	87,915
Student services	14,154	3,609	133	382	1	299	473	-	19,051
Institutional support	54,886	13,125	3,022	2,557	67	1,296	1,109	-	76,062
Operation and maintenance of plant	21,809	5,456	3,248	20,217	25,019	348	-	-	76,097
Healthcare entities	72,493	12,692	28,231	866	83	397	-	-	114,762
Scholarships and fellowships	2,586	295	988	361	-	-	103,890	-	108,120
Auxiliary operations	63,194	76,544	9,320	-	1,954	3,535	1,527	-	156,074
Depreciation	-	-	-	-	-	-	-	57,583	57,583
Total expenses	<u>\$792,140</u>	<u>\$207,229</u>	<u>\$95,073</u>	<u>\$43,922</u>	<u>\$27,812</u>	<u>\$12,059</u>	<u>\$111,083</u>	<u>\$57,583</u>	<u>\$1,346,901</u>

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For the year-ended June 30, 2004:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$289,287	\$ 27,834	\$ 4,415	\$ -	\$ 13	\$ 2,349	\$ 2,175	\$ -	\$ 326,073
Research	122,363	35,799	28,393	6,970	51	1,340	1,447	-	196,363
Public service	66,399	11,228	9,486	919	416	834	212	-	89,494
Academic support	57,531	13,696	-	10,158	5	1,406	96	-	82,892
Student services	13,626	2,935	320	-	1	285	114	-	17,281
Institutional support	50,343	14,527	2,998	2,093	105	1,235	945	-	72,246
Operation and maintenance of plant	20,866	6,546	2,997	13,940	22,163	275	-	-	66,787
Healthcare entities	67,946	11,282	26,137	618	94	277	-	-	106,354
Scholarships and fellowships	2,920	268	1,452	57	-	-	97,153	-	101,850
Auxiliary operations	61,809	72,113	11,085	4,761	3,764	4,448	1,782	-	159,762
Depreciation	-	-	-	-	-	-	-	52,227	52,227
Total Expenses	\$753,090	\$196,228	\$87,283	\$39,516	\$26,612	\$12,449	\$103,924	\$52,227	\$1,271,329

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O. AUXILIARY SEGMENTS

The University issues revenue bonds to finance certain of its auxiliary activities. Investors in these bonds rely on the revenue generated by the individual activities and other sources specified for repayment. Descriptive information for each of the University's segments is as follows:

Master Trust Indenture Obligated Group – Includes the following:

UNL Student Fees and Facilities Bonds, Series 2002, Series 2003A, and Series 2003B – These bonds are used to provide student housing and related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consist primarily of room and board charges.

University of Nebraska Revenue Bonds, Series 2000 and Series 2003 – These bonds are used to provide parking-related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consists of parking fee revenues.

UNO Student Center Project - Series 2003 – The Student Center provides a variety of services for the benefit of the University and its students. Student fees and bookstore and food services are the primary sources of operating revenues.

UNO Student Housing Project – Series 2003 – The bonds are used to provide student housing and related facilities as allowed by the bond covenants for the University. Operating revenues consist primarily of rentals and student fees.

UNMC Student Housing Project – Series 2003 – These bonds are used to provide student housing and related facilities as allowed by the bond covenants for UNMC. Facility rental revenues comprise the operating revenues of this segment.

UNK Student Fees And Facilities Revenue Bonds, Under The June 15, 1966 Resolution And Supplemental Resolutions – The bonds are used to provide student housing and related facilities as allowed by the bond covenants for the UNK campus. Operating revenues consist primarily of rentals, food service income, and student fees.

Pledges pertaining to these issues are disclosed in Note H.

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Condensed financial information for each of the University's segments follows (in thousands):

	<u>June 30, 2005</u>	
	UNK Student Fees and Facilities	Master Trust Indenture Obligated Group
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 8,233	\$ 66,192
Non-current assets:		
Capital assets	16,924	162,625
Other non-current assets	<u>1,252</u>	<u>8,401</u>
Total assets	<u>26,409</u>	<u>237,218</u>
Liabilities:		
Current liabilities	1,413	16,915
Non-current liabilities	<u>8,712</u>	<u>159,857</u>
Total liabilities	<u>10,125</u>	<u>176,772</u>
Net assets:		
Invested in capital assets, net of related debt:	7,374	18,454
Restricted:		
Expendable:		
Plant construction	113	8,437
Debt service	8,797	26,602
Unrestricted	<u>-</u>	<u>6,953</u>
Total net assets	<u>\$ 16,284</u>	<u>\$ 60,446</u>
	<u>June 30, 2004</u>	
	UNK Student Fees and Facilities	Master Trust Indenture Obligated Group
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 7,280	\$ 108,939
Non-current assets:		
Capital assets	16,852	126,273
Other non-current assets	<u>333</u>	<u>7,279</u>
Total assets	<u>24,465</u>	<u>242,491</u>
Liabilities:		
Current liabilities	1,677	24,309
Non-current liabilities	<u>9,049</u>	<u>163,236</u>
Total liabilities	<u>10,726</u>	<u>187,545</u>
Net assets:		
Invested in capital assets, net of related debt:	6,801	(38,307)
Restricted:		
Expendable:		
Plant construction	123	53,816
Debt service	6,815	32,687
Unrestricted	<u>-</u>	<u>6,750</u>
Total net assets	<u>\$ 13,739</u>	<u>\$ 54,946</u>

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	<u>Year Ended June 30, 2005</u>	
	UNK	Master Trust
Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Student Fees and Facilities	Indenture Obligated Group
Operating revenues	\$ 11,628	\$ 52,822
Operating expenses:		
Depreciation	897	4,281
Other operating expenses	<u>8,023</u>	<u>42,660</u>
Operating income	2,708	5,881
 Non-operating expense	 <u>(163)</u>	 <u>(381)</u>
Change in net assets	2,545	5,500
Net assets, beginning of year	<u>13,739</u>	<u>54,946</u>
 Net assets, end of year	 <u>\$ 16,284</u>	 <u>\$ 60,446</u>
	<u>Year Ended June 30, 2004</u>	
	UNK	Master Trust
Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Student Fees and Facilities	Indenture Obligated Group
Operating revenues	\$ 10,673	\$ 50,067
Operating expenses:		
Depreciation	818	3,608
Other operating expenses	<u>8,091</u>	<u>43,132</u>
Operating income	1,764	3,327
 Non-operating expense	 <u>(11)</u>	 <u>(592)</u>
Change in net assets	1,753	2,735
Net assets, beginning of year	<u>11,986</u>	<u>52,211</u>
 Net assets, end of year	 <u>\$ 13,739</u>	 <u>\$ 54,946</u>

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	<u>Year Ended June 30, 2005</u>	
	<u>UNK</u>	<u>Master Trust</u>
Condensed Statement of Cash Flows	Student Fees and Facilities	Indenture Obligated Group
Net cash from operating activities	\$ 3,442	\$ 4,503
Net cash flows from capital and related financing activities	(1,783)	(47,274)
Net cash flows from investing activities	<u>(3,838)</u>	<u>(29)</u>
Net change in cash and cash equivalents	(2,179)	(42,800)
Cash and cash equivalents, beginning of year	<u>7,145</u>	<u>104,335</u>
Cash and cash equivalents, end of year	<u>\$ 4,966</u>	<u>\$ 61,535</u>

	<u>Year Ended June 30, 2004</u>	
	<u>UNK</u>	<u>Master Trust</u>
Condensed Statement of Cash Flows	Student Fees and Facilities	Indenture Obligated Group
Net cash from operating activities	\$ 2,704	\$ 18,612
Net cash flows from capital and related financing activities	(1,980)	33,808
Net cash flows from investing activities	<u>105</u>	<u>15,811</u>
Net change in cash and cash equivalents	829	68,231
Cash and cash equivalents, beginning of year	<u>6,316</u>	<u>36,104</u>
Cash and cash equivalents, end of year	<u>\$ 7,145</u>	<u>\$ 104,335</u>

P. UNIVERSITY OF NEBRASKA FOUNDATION

The Foundation is a separate, nonprofit organization incorporated in the State of Nebraska and has as its purpose to encourage private financial support of the University from individuals, corporations, and other foundations. Oversight of the Foundation is the responsibility of a separate and independent Board of Trustees, not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Trustees of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation.

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(Thousands)

Although the University does not control the timing or amount of receipts from the Foundation, the resources that the Foundation holds and invests, or the income thereon, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements. Based on the Foundation's audited financial statements as of June 30, 2005 and 2004, the Foundation's net assets (including unrealized gains) totaled \$1,018,798 and \$947,134 for the years ended June 30, 2005 and 2004, respectively.

During the years ended June 30, 2005 and 2004, the Foundation contributed \$53 million and \$52 million, respectively, to the University for academic support, student assistance, faculty assistance, research, and museums and libraries. In addition, the Foundation provided capital gifts of \$24 million and \$18 million during 2005 and 2004, respectively, to the University. These contributions provided support for several projects, including the construction of the Research Center of Excellence Project (Durham Research Center) and the Memorial Stadium Project.

Complete financial statements for the Foundation can be obtained from the University of Nebraska Foundation, 1010 Lincoln Mall, Suite 300, Lincoln, Nebraska 68508-2886.

Q. COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the audited financial statements of the Foundation:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the University of Nebraska Foundation (Foundation) are described below to enhance the usefulness of the financial statements to the reader.

Nature of the Entity and Principles of Consolidation – The University of Nebraska Foundation is a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code whose purpose is to provide financial support of the University of Nebraska System. Its wholly-owned Limited Liability Company, University of Nebraska Technology Park LLC provides incubator facilities for emerging businesses. During 2004, the Foundation established a new nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, UNF Charitable Gift Fund, whose purpose is to accept gifts and distribute funds to approved 501(c)(3) tax exempt organizations. The UNF Charitable Gift Fund is organized as a supporting organization of the University of Nebraska Foundation.

Basis of Accounting – The financial statements of the Foundation have been prepared on the accrual basis and include all funds controlled by and in the custody of the Foundation. Funds in control of the Foundation include the wholly owned Limited Liability Company, University of Nebraska Technology Park LLC.

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Financial Statement Presentation – The Foundation utilizes Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, in the financial statement presentation. SFAS No. 117 set standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets – Unrestricted net assets include revenues and expenses associated with the general operation of the Foundation and include gifts with no donor restrictions. Property and equipment assets associated with the general operation of the Foundation are also included in this category.

Temporarily Restricted Net Assets – Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, trust activity, deferred gifts and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted or determined. Assets with restrictions imposed by the Foundation Board are categorized as temporarily restricted assets also.

Permanently Restricted Net Assets – Permanently restricted net assets include gifts, trusts, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions and gifts which have been donor stipulated to provide loans to students.

Pledges Receivable – Pledges receivable are recorded on the balance sheet as assets net of an approximate 3% allowance for uncollectible accounts and discounted at the present value and recorded as donations on the statement of activities. As payments are received on pledges, the amounts will be included as donations on the statement of activities for any difference not recorded as a donation and adjusted annually for the present value.

Investments – The Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 establishes standards of reporting at fair value certain investments, debt and equity securities, held by not-for-profit organizations.

Therefore, investments in equity securities that have a readily determinable fair value and debt securities are stated at fair value. All other investments are stated at cost or if received by gift at fair value or appraised value at date of receipt.

Property and Equipment – Property and equipment assets, consisting of real estate, furniture, equipment and computer software, is stated at cost or, if contributed, at fair market value at date of contribution. The Foundation's policy is to capitalize property and equipment purchases in excess of five hundred dollars.

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Depreciation – The Foundation follows the policy of reducing the property and equipment by depreciation applicable to the related assets. Depreciation is computed by the straight-line method over the estimated useful life of the asset ranging from three to 31-½ years. Assets are depreciated to a normal estimated salvage value.

Use of Estimates – The preparation of financial statements in accordance with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences – Employees of the Foundation are entitled to paid vacation days, depending on the job classification and length of service. The Foundation adopted the policy of accruing vacation pay at year-end.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposit accounts, time deposits accounts and money market accounts.

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(Thousands)

	Book Value 2005
INVESTMENTS STATED AT OTHER THAN FAIR VALUE:	
Certificates of deposit, savings and money funds	\$ 33,517
Limited partnerships	-
Real estate	24,026
Real estate mortgage and contracts	24,852
Miscellaneous	2,845
Cash value of life insurance	3,357
Annuity contracts	209
	<u>88,806</u>
TOTAL INVESTMENTS:	
Stated at fair value	905,805
Stated at other than fair value	<u>88,806</u>
	<u>\$ 994,611</u>
	Book Value 2004
INVESTMENTS STATED AT OTHER THAN FAIR VALUE:	
Certificates of deposit, savings and money funds	\$ 27,473
Limited partnerships	(548)
Real estate	15,821
Real estate mortgage and contracts	24,623
Mineral rights and royalties	22
Miscellaneous	2,824
Cash value of life insurance	3,157
Annuity contracts	367
	<u>73,739</u>
TOTAL INVESTMENTS:	
Stated at fair value	837,606
Stated at other than fair value	<u>73,739</u>
	<u>\$ 911,345</u>

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3. LEASE COMMITMENTS

The Foundation has entered into a contract for the rental of office space in Lincoln beginning January 1, 2003 for a period of 10 years and continuing on a month-to-month basis. The annual rental is \$400 for the first five years and \$467 for the second five years. The Foundation had entered into a contract for rental of office space in Omaha through December 31, 2005, with annual increases and subsequently entered into an extension for two additional years through December 31, 2007. The current lease is \$11 per month and the extension period is \$12 per month. The Foundation also renewed an agreement to lease office space in Kearney through October 31, 2008 at \$3 per month through October 31, 2005 and \$4 per month from November 1, 2005 through October 31, 2008. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2005, are as follows:

June 30, 2006	\$ 577
June 30, 2007	579
June 30, 2008	544
June 30, 2009	481
June 30, 2010	467

4. RETIREMENT PLAN

The Foundation sponsors a retirement plan that covers employees of the University of Nebraska Foundation and the University of Nebraska Technology Park LLC 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 annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Code Section 403b(1) of the Internal Revenue Code using annuities under TIAA-CREF. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of their salary to the plan and the Foundation matches the amount with either 7.5% or 6% of salary, respectively. The Foundation and LLC contributions to the plans for the years ending June 30, 2005 and 2004 was \$427 and \$419, respectively.

5. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances and certificates of deposit at financial institutions located in Nebraska. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100. 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.

THE UNIVERSITY OF NEBRASKA
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YEARS ENDED JUNE 30, 2005 AND 2004
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6. 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 disposition of these matters will not have a material effect on the Foundation financial position.

7. RESTRICTED 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. Only income from the permanently restricted net assets are available for these purposes.

The amount of the net assets are as follows:

	<u>2005</u>
Temporarily restricted - charitable trusts and annuities	\$ 27,833
Temporarily restricted - available for specific purposes	238,857
Temporarily restricted - use at discretion of Foundation Board	51,709
Permanently restricted - available for specific purposes	51,425
Permanently restricted - endowment	630,403
Permanently restricted - student loans	<u>10,235</u>
	<u><u>\$ 1,010,462</u></u>
	<u>2004</u>
Temporarily restricted - charitable trusts and annuities	\$ 27,004
Temporarily restricted - available for specific purposes	232,926
Temporarily restricted - use at discretion of Foundation Board	47,819
Permanently restricted - available for specific purposes	49,030
Permanently restricted - endowment	571,226
Permanently restricted - student loans	<u>9,766</u>
	<u><u>\$ 937,771</u></u>

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8. PLEDGES RECEIVABLE

Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected for the year-ended June 30, 2005 as follows:

Gross amount due in:	
One year or less	\$ 31,705
One to five years	28,627
More than five years	<u>32,629</u>
	92,961
Less discount to present value	<u>12,618</u>
	80,343
Less allowance for doubtful accounts - 3%	<u>2,410</u>
	<u>\$ 77,933</u>

The discount will be recognized as contribution income in years 2006 through 2021.

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 financial statements because they are not unconditional promises.

9. PROPERTY AND EQUIPMENT

The property and equipment of the Foundation at June 30, 2005 and 2004 are as follows:

	2005	2004
Property	\$ 489	\$ 489
Leasehold improvements	1,511	1,516
Aircraft	4,177	4,177
Automobiles	141	99
Furniture, equipment and software	<u>5,216</u>	<u>4,991</u>
	11,534	11,272
Less accumulated depreciation	<u>5,550</u>	<u>4,908</u>
Net property and equipment	<u>\$ 5,984</u>	<u>\$ 6,364</u>

THE UNIVERSITY OF NEBRASKA
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NOTES TO FINANCIAL STATEMENTS
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(Thousands)

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Investments – The fair value of investments in marketable equity and debt securities is based on quoted market prices. Nonmarketable debt securities are valued based on estimated discounted future cash flows; nonmarketable equity securities are carried at estimated current value if it is possible to determine this, otherwise at cost.

Pledges receivable – The fair value of contributions receivable is estimated by discounting the future cash flows using the average rates earned on investments.

Accrued interest receivable – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of interest payments.

R. SUBSEQUENT EVENTS

On July 1, 2005, the University issued \$6,085 of Series 2005 Revenue Refunding Bonds with an average rate of 3.8% to refund \$5,895 of outstanding Series 2000 University of Nebraska at Kearney Student Fees & Facilities Revenue Refunding Bonds with an average rate of 5.6%. The refunding was approved by the Board of Regents on May 26, 2005 and reduced total debt service payments by approximately \$857 and resulted in an economic gain of approximately \$549.

On July 6, 2005, the Board of Regents issued \$26,925 of Revenue and Refunding Bonds Series 2005 (University of Nebraska-Lincoln Parking Project). The proceeds will be used to (a) finance the construction of an approximately 843-space multi-level addition to the parking garage located at 14th and Avery streets for an approximate cost of \$8,400 and (b) provide for the payment and redemption of \$18,885 outstanding Revenue Bonds, Series 2000 (University of Nebraska-Lincoln Parking Project) dated August 1, 2000. The refunding reduced total debt service payments by approximately \$3,099 and resulted in an economic gain of \$1,438.

On June 10, 2005, the Board of Regents approved the construction of UNK replacement student housing facilities. The total estimated cost of the project is expected to be \$20,280. The funding for the construction will be financed by the issuance of revenue bonds. The project includes the construction of three residence halls which will replace the current Case and Ludden residence halls and will provide suite-style living for approximately 300 students residents. The issuance of the bonds will be made under the University of Nebraska Master Trust Indenture.

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On July 10, 2005, the Board of Regents authorized the redemption of the UNK Student Fees and Facilities Revenue Bonds, Series 1966, maturing July 1, 2006 from funds held in the surplus fund for these Revenue Bonds. The net result of the early redemption of the 1966 UNK Bonds from the surplus fund will result in an approximate net interest savings of \$10. Additionally, upon redemption, UNK Housing Operations will come under the University of Nebraska Master Trust Indenture.

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA-LINCOLN
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 123,777	\$ 117,037
Cash and cash equivalents - restricted	99,147	184,846
Investments	3,364	4,794
Accounts receivable and unbilled charges, net	41,646	39,095
Loans to students, net	3,412	3,408
Due from other campuses	836	3,290
Other current assets	<u>10,322</u>	<u>10,435</u>
Total current assets	<u>282,504</u>	<u>362,905</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	1,543	682
Investments	177,044	140,744
Loans to students, net of current portion	11,351	10,663
Capital assets, net of accumulated depreciation	555,224	483,930
Other non-current assets	<u>2,867</u>	<u>2,748</u>
Total non-current assets	<u>748,029</u>	<u>638,767</u>
Total assets	<u>1,030,533</u>	<u>1,001,672</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	29,378	31,603
Accrued salaries, wages, and post-retirement benefits	17,175	15,630
Accrued compensated absences	4,314	3,851
Bond obligations payable	6,060	2,255
Capital lease obligations	2,157	2,243
Due to other campuses	73	38
Capital lease obligations due to other campuses	1,694	960
Deferred revenues and credits	<u>46,094</u>	<u>42,730</u>
Total current liabilities	<u>106,945</u>	<u>99,310</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	875	1,111
Accrued compensated absences, net of current portion	15,147	14,466
Bond obligations payable, net of current portion	215,880	221,940
Capital lease obligations, net of current portion	5,050	7,409
Capital lease obligations - UNFC, net of current portion	4,820	1,544
Deferred revenues and credits, net of current portion	<u>2,110</u>	<u>2,465</u>
Total non-current liabilities	<u>243,882</u>	<u>248,935</u>
Total liabilities	<u>350,827</u>	<u>348,245</u>
NET ASSETS:		
Invested in capital assets, net of related debt	360,250	348,577
Restricted for:		
Nonexpendable:		
Permanent endowment	158,321	149,694
Expendable:		
Externally restricted funds	18,933	21,132
Loan funds	17,045	16,678
Plant construction	2,572	(4,089)
Debt service	30,711	39,309
Unrestricted	<u>91,874</u>	<u>82,126</u>
Total net assets	<u>\$ 679,706</u>	<u>\$ 653,427</u>

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA-LINCOLN
ADDITIONAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$30,973 and \$26,506 in 2005 and 2004, respectively)	\$ 99,677	\$ 89,748
Federal grants and contracts - restricted	190,845	179,516
State and local grants and contracts - restricted	5,543	6,492
Private grants and contracts - restricted	10,056	2,117
Sales and services of educational activities	36,342	33,338
Sales and services of auxiliary operations	83,681	87,425
Sales and services of auxiliary segments (net of scholarship allowances of \$4,207 and \$3,976 in 2005 and 2004, respectively)	36,070	33,726
Other operating revenues	4,606	5,796
Total operating revenues	<u>466,820</u>	<u>438,158</u>
OPERATING EXPENSES:		
Salaries and wages	298,202	289,052
Benefits	79,735	73,264
Total compensation and benefits	377,937	362,316
Supplies and materials	119,782	112,716
Contractual services	30,032	28,492
Repairs and maintenance	21,036	18,167
Utilities	17,755	17,608
Communications	7,572	7,708
Depreciation	31,712	29,305
Scholarships and fellowships	88,270	82,957
Total operating expenses	<u>694,096</u>	<u>659,269</u>
TRANSFERS:		
Intercampus reallocation	(3,780)	(14,677)
Other	8,254	8,782
Total transfers	<u>4,474</u>	<u>(5,895)</u>
OPERATING LOSS	<u>(222,802)</u>	<u>(227,006)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska noncapital appropriations	203,699	200,621
Gifts	31,136	28,700
Investment income (net of investment management fees of \$109 and \$105 in 2005 and 2004, respectively)	18,718	22,719
Increase in capital lease obligation - UNFC	(2,390)	(1,153)
Increase in fair value of investments	3,329	13,205
Interest income on loans receivable	171	190
Capitalized interest on bond obligations	6,223	-
Interest expense on bond obligations	(11,907)	(7,655)
Net non-operating revenues	<u>248,979</u>	<u>256,627</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>26,177</u>	<u>29,621</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
State of Nebraska capital appropriations	1,703	2,045
Capital grants and gifts	1,191	3,394
U.S. Government advances	111	111
Private gifts and bequests for permanent endowments	884	827
Loss on disposal of capital assets	(3,787)	(2,365)
Net other revenues, expenses, gains, or losses	<u>102</u>	<u>4,012</u>
INCREASE IN NET ASSETS	26,279	33,633
NET ASSETS:		
Net assets, beginning of year	<u>653,427</u>	<u>619,794</u>
Net assets, end of year	<u>\$ 679,706</u>	<u>\$ 653,427</u>

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 200,285	\$ 179,030
Tuition and fees	98,390	90,001
Sales and services of auxiliary operations	89,504	87,644
Sales and services of auxiliary segments	36,315	31,147
Sales and services of educational activities	56,771	51,154
Other receipts	7,279	5,010
Student loans collected	3,441	3,636
Payments to employees	(375,482)	(360,136)
Payments to vendors	(213,917)	(192,776)
Scholarships paid to students	(88,270)	(82,957)
Student loans issued	(4,211)	(3,627)
Other payments	(314)	(139)
Transfers:		
Intercampus reallocation	(3,780)	(14,677)
Other	8,254	8,782
Net cash flows used in operating activities	<u>(185,735)</u>	<u>(197,908)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	204,125	200,602
Private gifts and grants for operating use	31,136	28,700
Private gifts and bequests for endowment use	884	828
Net cash flows provided by noncapital financing activities	<u>236,145</u>	<u>230,130</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	-	133,265
Grants and contracts	2,063	8,606
State of Nebraska capital appropriations	1,703	2,045
U.S. Government advances	111	112
Purchases of capital assets	(99,953)	(72,872)
Principal paid on bond obligations	(2,255)	(1,905)
Defeasance of bond obligations	-	-
Interest paid on bond obligations	(12,744)	(4,974)
Payments made on lease obligations	(4,436)	(3,237)
Net cash flows provided by (used in) capital and related financing activities	<u>(115,511)</u>	<u>61,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	86,857	113,121
Purchases of investments	(118,398)	(109,565)
Interest on investments	18,373	22,822
Interest on loans receivable	171	189
Net cash flows provided by (used in) investing activities	<u>(12,997)</u>	<u>26,567</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78,098)	119,829
CASH AND CASH EQUIVALENTS, beginning of year	<u>302,565</u>	<u>182,736</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 224,467</u>	<u>\$ 302,565</u>

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 123,777	\$ 117,037
Cash and cash equivalents - restricted (current)	99,147	184,846
Cash and cash equivalents - restricted (non-current)	<u>1,543</u>	<u>682</u>
Cash and cash equivalents - end of year	<u>\$ 224,467</u>	<u>\$ 302,565</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (222,802)	\$ (227,006)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	31,712	29,305
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(1,529)	(7,445)
Loans to students	(692)	162
Other current assets	(932)	(177)
Accounts payable	2,698	10,035
Accrued salaries, wages, and post-retirement benefits	2,453	2,180
Deferred revenues and credits	<u>3,357</u>	<u>(4,962)</u>
Net cash flows used in operating activities	<u>\$ (185,735)</u>	<u>\$ (197,908)</u>
NONCASH TRANSACTIONS:		
Acquisition of capital assets through lease obligations	\$ 1,991	\$ 7,907
Increase in fair value of investments	3,329	13,205

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 51,499	\$ 52,488
Cash and cash equivalents - restricted	86,278	84,383
Investments	881	615
Accounts receivable and unbilled charges, net	45,204	45,597
Loans to students, net	2,876	2,648
Due from other campuses	2,058	-
Other current assets	2,118	1,967
Total current assets	<u>190,914</u>	<u>187,698</u>
NON-CURRENT ASSETS:		
Investments	34,285	30,821
Investment in joint venture	163,084	147,866
Loans to students	9,501	10,435
Capital assets, net of accumulated depreciation	348,199	331,235
Other non-current assets	9,510	7,180
Total non-current assets	<u>564,579</u>	<u>527,537</u>
Total assets	<u>755,493</u>	<u>715,235</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	14,135	15,462
Accrued salaries, wages, and post-retirement benefits	7,920	1,998
Accrued compensated absences	8,080	6,505
Bond obligations payable	110	110
Capital lease obligations	1,040	175
Capital lease obligations - UNFC	234	223
Deferred revenues and credits	8,859	8,273
Health and other insurance claims	1,395	750
Due to other campuses	-	97
Total current liabilities	<u>41,773</u>	<u>33,593</u>
NON-CURRENT LIABILITIES:		
Accrued compensated absences, net of current portion	11,138	11,000
Bond obligations payable, net of current portion	5,210	5,320
Capital lease obligations	5,600	-
Capital lease obligations - UNFC, net of current portion	799	1,044
Deferred revenues and credits	450	-
Total non-current liabilities	<u>23,197</u>	<u>17,364</u>
Total liabilities	<u>64,970</u>	<u>50,957</u>
NET ASSETS:		
Invested in capital assets, net of related debt	335,122	327,483
Restricted for:		
Nonexpendable:		
Permanent endowment	1,437	1,237
Expendable:		
Externally restricted funds	86,637	93,703
Loan funds	16,023	15,195
Plant construction	6,815	(5,749)
Debt service	344	370
Unrestricted	<u>244,145</u>	<u>232,039</u>
Total net assets	<u>\$ 690,523</u>	<u>\$ 664,278</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$4,675 and \$4,091 in 2005 and 2004, respectively)	\$ 24,188	\$ 21,027
Federal grants and contracts - restricted	58,519	50,124
State and local grants and contracts - restricted	17,322	14,745
Private grants and contracts - restricted	69,505	72,575
Sales and services of educational activities	3,504	3,433
Sales and services of health care entities	112,471	109,069
Sales and services of auxiliary operations	14,109	11,170
Sales and services of auxiliary segments	303	55
Other operating revenues	112	132
Total operating revenues	<u>300,033</u>	<u>282,330</u>
OPERATING EXPENSES:		
Salaries and wages	214,911	207,566
Benefits	53,842	44,744
Total compensation and benefits	268,753	252,310
Supplies and materials	50,082	48,264
Contractual services	56,615	51,945
Repairs and maintenance	15,688	14,975
Utilities	5,034	4,251
Communications	2,401	2,454
Depreciation	16,756	14,096
Scholarships and fellowships	7,018	5,872
Total operating expenses	<u>422,347</u>	<u>394,167</u>
TRANSFERS:		
Intercampus reallocation	(4,155)	(2,336)
Other	(414)	3,008
Total transfers	<u>(4,569)</u>	<u>672</u>
OPERATING LOSS	<u>(126,883)</u>	<u>(111,165)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska noncapital appropriations	104,869	101,374
Gifts	14,085	10,182
Investment income (net of investment management fees of \$20 in 2005 and 2004)	4,523	4,286
Increase in fair value of investments	1,581	3,661
Interest income on loans receivable	166	225
Interest expense on bond obligations	(235)	(118)
Capitalized interest on bond obligations	219	-
Equity in earnings of joint venture	18,218	19,349
Net non-operating revenues	<u>143,426</u>	<u>138,959</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>16,543</u>	<u>27,794</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	5,179	1,240
Capital grants and gifts	3,977	10,424
U.S. Government advances	925	157
Loss on disposal of capital assets	(379)	(508)
Net other revenues, expenses, gains, or losses	<u>9,702</u>	<u>11,313</u>
INCREASE IN NET ASSETS	26,245	39,107
NET ASSETS:		
Net assets, beginning of year	<u>664,278</u>	<u>625,171</u>
Net assets, end of year	<u>\$ 690,523</u>	<u>\$ 664,278</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 141,986	\$ 131,797
Tuition and fees	24,159	21,074
Sales and services of healthcare entities	114,676	108,967
Sales and services of auxiliary operations	11,269	10,266
Sales and services of auxiliary segments	287	57
Sales and services of educational activities	3,504	3,432
Other receipts	112	133
Student loans collected	3,064	2,708
Payments to employees	(230,597)	(250,761)
Payments to vendors	(155,964)	(121,467)
Scholarships paid to students	(7,018)	(5,872)
Student loans issued	(2,357)	(4,310)
Transfers:		
Intercampus reallocation	(4,155)	(2,336)
Other	(414)	3,008
Net cash flows used in operating activities	<u>(101,448)</u>	<u>(103,304)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	104,869	101,374
Private gifts and grants for operating use	14,084	10,182
Net cash flows provided by noncapital financing activities	<u>118,953</u>	<u>111,556</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants and contracts	3,977	10,419
State of Nebraska capital appropriations	5,173	1,171
U.S. Government advances	925	157
Proceeds from the issuance of bonds	-	5,430
Purchases of capital assets	(30,387)	(27,171)
Principal paid on bond obligations	(110)	(283)
Interest paid on bond obligations	(234)	(167)
Payments made on lease obligations	(3,310)	(397)
Net cash flows used in capital and related financing activities	<u>(23,966)</u>	<u>(10,841)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	429	610
Purchases of investments	(742)	(153)
Interest on investments	4,520	4,297
Interest on loans receivable	160	225
Distributions from joint venture	3,000	3,000
Net cash flows provided by investing activities	<u>7,367</u>	<u>7,979</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	906	5,390
CASH AND CASH EQUIVALENTS, beginning of year	<u>136,871</u>	<u>131,481</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 137,777</u>	<u>\$ 136,871</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 51,499	\$ 52,488
Cash and cash equivalents - restricted (current)	<u>86,278</u>	<u>84,383</u>
Cash and cash equivalents - end of year	<u>\$ 137,777</u>	<u>\$ 136,871</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$(126,883)	\$(111,165)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	16,756	14,096
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(2,580)	(5,821)
Loans to students	706	(1,602)
Other current assets	(151)	(294)
Accounts payable	3,384	1,214
Accrued salaries, wages, and post-retirement benefits	7,635	1,499
Deferred revenues and credits	<u>(315)</u>	<u>(1,231)</u>
Net cash flows from operating activities	<u>\$ (101,448)</u>	<u>\$ (103,304)</u>
NONCASH TRANSACTIONS:		
Increase in fair value of investments	\$ 1,581	\$ 3,661
Acquisition of capital assets through lease obligations	9,755	226

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,101	\$ 16,692
Cash and cash equivalents - restricted	9,657	9,216
Accounts receivable and unbilled charges, net	6,496	6,295
Loans to students, net	1,575	1,560
Other current assets	<u>1,512</u>	<u>1,427</u>
Total current assets	<u>35,341</u>	<u>35,190</u>
NON-CURRENT ASSETS:		
Investments	7,843	7,241
Loans to students	5,326	5,104
Capital assets, net of accumulated depreciation	114,280	118,229
Other non-current assets	<u>3,344</u>	<u>3,083</u>
Total non-current assets	<u>130,793</u>	<u>133,657</u>
Total assets	<u>166,134</u>	<u>168,847</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	3,240	2,464
Accrued salaries, wages, and post-retirement benefits	5,942	5,714
Accrued compensated absences	677	701
Bond obligations payable	795	785
Due to other campuses	92	1,314
Deferred revenues and credits	<u>5,562</u>	<u>4,993</u>
Total current liabilities	<u>16,308</u>	<u>15,971</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	376	190
Accrued compensated absences, net of current portion	2,905	2,731
Bond obligations payable, net of current portion	19,155	19,950
Deferred revenues and credits, net of current portion	<u>3,100</u>	<u>2,814</u>
Total non-current liabilities	<u>25,536</u>	<u>25,685</u>
Total liabilities	<u>41,844</u>	<u>41,656</u>
NET ASSETS:		
Invested in capital assets, net of related debt	94,598	97,787
Restricted for:		
Nonexpendable:		
Permanent endowment	751	936
Expendable:		
Externally restricted funds	1,929	1,766
Loan funds	7,778	7,726
Plant construction	3,561	3,535
Debt service	3,389	2,843
Unrestricted	<u>12,284</u>	<u>12,598</u>
Total net assets	<u>\$ 124,290</u>	<u>\$ 127,191</u>

THE UNIVERSITY OF NEBRASKA

(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT OMAHA

ADDITIONAL INFORMATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

(Thousands)

	2005	2004
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$12,017 and \$10,071 in 2005 and 2004, respectively)	\$ 45,714	\$ 42,790
Federal grants and contracts - restricted	14,360	13,569
State and local grants and contracts - restricted	3,512	2,924
Private grants and contracts - restricted	3,200	1,931
Sales and services of educational activities	4,562	4,446
Sales and services of auxiliary operations	6,045	6,715
Sales and services of auxiliary segments (net of scholarship allowances of \$285 and \$300 in 2005 and 2004, respectively)	11,182	11,237
Other operating revenues	<u>364</u>	<u>370</u>
Total operating revenues	<u>88,939</u>	<u>83,982</u>
OPERATING EXPENSES:		
Salaries and wages	75,985	73,466
Benefits	<u>18,820</u>	<u>17,271</u>
Total compensation and benefits	94,805	90,737
Supplies and materials	24,245	24,162
Contractual services	4,846	4,372
Repairs and maintenance	3,585	3,254
Utilities	2,771	2,587
Communications	1,335	1,228
Depreciation	5,252	5,196
Scholarships and fellowships	<u>10,672</u>	<u>10,328</u>
Total operating expenses	<u>147,511</u>	<u>141,864</u>
TRANSFERS:		
Intercampus reallocation	(3,067)	(764)
Other	<u>(38)</u>	<u>161</u>
Total transfers	<u>(3,105)</u>	<u>(603)</u>
OPERATING LOSS	<u>(61,677)</u>	<u>(58,485)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska noncapital appropriations	52,048	49,894
Gifts	6,257	6,446
Investment income (net of investment management fees of \$12 and \$10 in 2005 and 2004, respectively)	1,348	1,100
Increase (decrease) in fair value of investments	(418)	566
Interest income on loans receivable	95	113
Interest expense on bond obligations	<u>(850)</u>	<u>(583)</u>
Net non-operating revenues	<u>58,480</u>	<u>57,536</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(3,197)</u>	<u>(949)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:		
US Government advances	311	304
Loss on disposal of capital assets	<u>(15)</u>	<u>(411)</u>
Total other revenues, expenses, gains or losses	<u>296</u>	<u>(107)</u>
DECREASE IN NET ASSETS	(2,901)	(1,056)
NET ASSETS:		
Net assets, beginning of year	<u>127,191</u>	<u>128,247</u>
Net assets, end of year	<u>\$124,290</u>	<u>\$127,191</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 21,687	\$ 19,347
Tuition and fees	45,583	42,988
Sales and services of auxiliary operations	6,437	7,543
Sales and services of auxiliary segments	11,182	11,237
Sales and services of educational activities	4,463	4,375
Other receipts	352	311
Student loans collected	1,900	1,688
Payments to employees	(94,241)	(90,622)
Payments to vendors	(37,787)	(34,420)
Scholarships paid to students	(10,672)	(10,328)
Student loans issued	(2,137)	(1,867)
Transfers:		
Intercampus reallocation	(3,067)	(764)
Other	(38)	161
Net cash flows used in operating activities	<u>(56,338)</u>	<u>(50,351)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	52,013	49,808
Private gifts and grants for operating use	6,425	5,946
Net cash flows provided by noncapital financing activities	<u>58,438</u>	<u>55,754</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	-	15,400
U.S. Government advances	311	304
Purchases of capital assets	(1,353)	(14,089)
Principal paid on bond obligations	(785)	(475)
Interest paid on bond obligations	(853)	(452)
Net cash flows provided by (used in) capital and related financing activities	<u>(2,680)</u>	<u>688</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	7,269	4,708
Purchases of investments	(8,242)	(6,759)
Interest on investments	1,308	1,116
Interest on loans receivable	95	113
Net cash flows provided by (used in) investing activities	<u>430</u>	<u>(822)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(150)	5,269
CASH AND CASH EQUIVALENTS, beginning of year	<u>25,908</u>	<u>20,639</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 25,758</u>	<u>\$ 25,908</u>

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 16,101	\$ 16,692
Cash and cash equivalents - restricted (current)	<u>9,657</u>	<u>9,216</u>
Cash and cash equivalents - end of year	<u>\$ 25,758</u>	<u>\$ 25,908</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (61,677)	\$ (58,485)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	5,252	5,196
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(341)	(458)
Loans to students	(237)	(179)
Other current assets	(346)	229
Accounts payable	(409)	954
Accrued salaries, wages, and post-retirement benefits	564	115
Deferred revenues and credits	<u>856</u>	<u>2,277</u>
Net cash flows used in operating activities	<u>\$ (56,338)</u>	<u>\$ (50,351)</u>
NONCASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ (418)	\$ 566

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004
(Thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,967	\$ 11,702
Cash and cash equivalents - restricted	6,852	8,639
Investments	3,074	-
Accounts receivable and unbilled charges, net	1,592	1,178
Loans to students, net	526	555
Due from other campuses	186	198
Other current assets	308	316
Total current assets	<u>23,505</u>	<u>22,588</u>
NON-CURRENT ASSETS:		
Investments	1,046	105
Loans to students	2,184	1,946
Capital assets, net of accumulated depreciation	65,292	60,716
Other non-current assets	205	228
Total non-current assets	<u>68,727</u>	<u>62,995</u>
Total assets	<u>92,232</u>	<u>85,583</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	1,260	1,485
Accrued salaries, wages, and post-retirement benefits	3,751	3,594
Accrued compensated absences	261	257
Bond obligations payable	1,150	1,320
Capital lease obligations	82	31
Deferred revenues and credits	1,153	1,077
Total current liabilities	<u>7,657</u>	<u>7,764</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	198	153
Accrued compensated absences, net of current portion	1,239	1,139
Bond obligations payable, net of current portion	7,745	8,895
Capital lease obligations, net of current portion	731	87
Deferred revenues and credits	804	-
Total non-current liabilities	<u>10,717</u>	<u>10,274</u>
Total liabilities	<u>18,374</u>	<u>18,038</u>
NET ASSETS:		
Invested in capital assets, net of related debt	54,929	50,547
Restricted for:		
Nonexpendable:		
Permanent endowment	66	38
Expendable:		
Externally restricted funds	1,038	787
Loan funds	2,937	2,952
Plant construction	1,149	469
Debt service	8,828	6,805
Unrestricted	4,911	5,947
Total net assets	<u>\$ 73,858</u>	<u>\$ 67,545</u>

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$6,184 and \$5,533 in 2005 and 2004, respectively)	\$ 17,408	\$ 15,317
Federal grants and contracts - restricted	5,969	5,886
State and local grants and contracts - restricted	1,642	1,609
Private grants and contracts - restricted	479	303
Sales and services of educational activities	3,394	3,319
Sales and services of auxiliary operations	2,853	2,393
Sales and services of auxiliary segments (net of scholarship allowances of \$1,733 and \$1,656 in 2005 and 2004, respectively)	8,906	7,993
Other operating revenues	183	200
Total operating revenues	<u>40,834</u>	<u>37,020</u>
OPERATING EXPENSES:		
Salaries and wages	35,200	33,877
Benefits	9,739	8,798
Total compensation and benefits	44,939	42,675
Supplies and materials	12,923	9,945
Contractual services	1,327	1,245
Repairs and maintenance	2,094	1,924
Utilities	2,184	2,094
Communications	631	949
Depreciation	3,057	2,907
Scholarships and fellowships	4,381	4,066
Total operating expenses	<u>71,536</u>	<u>65,805</u>
TRANSFERS:		
Intercampus reallocation	(685)	(1,292)
Other	1,367	1,301
Total transfers	<u>682</u>	<u>9</u>
OPERATING LOSS	<u>(30,020)</u>	<u>(28,776)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska noncapital appropriations	30,134	30,620
Gifts	1,358	1,038
Investment income (net of investment management fees of \$7 in 2005 and 2004)	677	514
Increase (decrease) in fair value of investments	1	(6)
Interest income on loans receivable	33	44
Interest expense on bond obligations	(447)	(489)
Net non-operating revenues	<u>31,756</u>	<u>31,721</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>1,736</u>	<u>2,945</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	594	524
Capital grants and gifts	4,065	872
U.S. Government advances	47	(26)
Additions to permanent endowments	28	-
Loss on disposal of capital assets	(157)	(152)
Net other revenues, expenses, gains, or losses	<u>4,577</u>	<u>1,218</u>
INCREASE IN NET ASSETS	6,313	4,163
NET ASSETS:		
Net assets, beginning of year	<u>67,545</u>	<u>63,382</u>
Net assets, end of year	<u>\$ 73,858</u>	<u>\$ 67,545</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 7,979	\$ 7,860
Tuition and fees	17,397	15,423
Sales and services of auxiliary operations	2,749	2,439
Sales and services of auxiliary segments	8,865	8,027
Sales and services of educational activities	3,387	3,244
Other receipts	183	210
Student loans collected	562	707
Payments to employees	(44,634)	(42,691)
Payments to vendors	(19,413)	(16,054)
Scholarships paid to students	(4,381)	(4,066)
Student loans issued	(771)	(489)
Transfers:		
Intercampus reallocation	(685)	(1,292)
Other	1,367	1,301
Net cash flows used in operating activities	<u>(27,395)</u>	<u>(25,381)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	30,134	30,620
Private gifts and grants for operating use	1,319	1,101
Private gifts and bequests for endowment use	28	-
Net cash flows provided by noncapital financing activities	<u>31,481</u>	<u>31,721</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	-	3,705
Defeasance of bond obligations	-	(4,015)
Grants and contracts	25	312
State of Nebraska capital appropriations	595	651
U.S. Government advances	47	(26)
Purchases of capital assets	(2,101)	(2,150)
Principal paid on bond obligations	(1,320)	(1,290)
Interest paid on bond obligations	(439)	(488)
Payments made on lease obligations	(84)	(84)
Net cash flows used in capital and related financing activities	<u>(3,277)</u>	<u>(3,385)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	-	100
Purchases of investments	(3,998)	-
Interest on investments	634	517
Interest on loans receivable	33	44
Net cash flows provided by (used in) investing activities	<u>(3,331)</u>	<u>661</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,522)	3,616
CASH AND CASH EQUIVALENTS, beginning of year	<u>20,341</u>	<u>16,725</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 17,819</u>	<u>\$ 20,341</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 10,967	\$ 11,702
Cash and cash equivalents - restricted (current)	<u>6,852</u>	<u>8,639</u>
Cash and cash equivalents - end of year	<u>17,819</u>	<u>20,341</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	(30,020)	(28,776)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	3,057	2,907
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(349)	153
Loans to students	(209)	218
Other current assets	22	(52)
Accounts payable	(276)	155
Accrued salaries, wages, and post-retirement benefits	305	(16)
Deferred revenues and credits	<u>75</u>	<u>30</u>
Net cash flows used in operating activities	<u>\$ (27,395)</u>	<u>\$ (25,381)</u>
NONCASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ 1	\$ (6)
Capital grants and gifts	877	697
Acquisition of assets through lease obligations	779	-

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 and 2004
(Thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,716	\$ 9,906
Cash and cash equivalents - restricted	2,867	2,667
Investments	31,577	26,571
Accounts receivable and unbilled charges, net	1,121	748
Total current assets	<u>50,281</u>	<u>39,892</u>
NON-CURRENT ASSETS:		
Investments	28,733	27,665
Capital assets, net of accumulated depreciation	3,974	4,336
Total non-current assets	<u>32,707</u>	<u>32,001</u>
Total assets	<u>82,988</u>	<u>71,893</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	515	240
Accrued salaries, wages, and post-retirement benefits	101	82
Accrued compensated absences	156	126
Capital lease obligations	403	803
Due to other campuses	460	539
Deferred revenues and credits	73	45
Health and other insurance claims	9,160	8,829
Total current liabilities	<u>10,868</u>	<u>10,664</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	13	18
Accrued compensated absences, net of current portion	639	582
Capital lease obligations, net of current portion	2,197	2,600
Total non-current liabilities	<u>2,849</u>	<u>3,200</u>
Total liabilities	<u>13,717</u>	<u>13,864</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,368	933
Restricted for:		
Nonexpendable:		
Permanent endowment	22,366	22,672
Expendable:		
Externally restricted funds	2,463	2,187
Plant construction	45	138
Unrestricted	43,029	32,099
Total net assets	<u>\$ 69,271</u>	<u>\$ 58,029</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
OPERATING REVENUES:		
Federal grants and contracts - restricted	\$ 1,910	\$ 997
Private grants and contracts - restricted	117	269
Sales and services of auxiliary operations	164	180
Other operating revenues	6,500	2,249
Total operating revenues	<u>8,691</u>	<u>3,695</u>
OPERATING EXPENSES:		
Salaries and wages	4,774	4,244
Benefits	932	808
Total compensation and benefits	<u>5,706</u>	<u>5,052</u>
Supplies and materials	197	1,141
Contractual services	2,253	1,229
Repairs and maintenance	1,164	740
Utilities	68	72
Communications	120	110
Depreciation	806	723
Scholarships and fellowships	742	701
Total operating expenses	<u>11,056</u>	<u>9,768</u>
TRANSFERS:		
Intercampus reallocation	3,457	(58)
Other	(55)	-
Total transfers	<u>3,402</u>	<u>(58)</u>
OPERATING INCOME (LOSS)	<u>1,037</u>	<u>(6,131)</u>
NON-OPERATING REVENUES (EXPENSES)		
State of Nebraska noncapital appropriations	8,183	7,679
Gifts	253	259
Investment income	1,649	1,981
Increase (decrease) in fair value of investments	(42)	1,768
Interest expense on bond obligations	(153)	(174)
Net non-operating revenues	<u>9,890</u>	<u>11,513</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>10,927</u>	<u>5,382</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
Private gifts and bequests for permanent endowments	315	1,283
Loss on disposal of capital assets	-	(2,594)
Net other revenues, expenses, gains, or losses	<u>315</u>	<u>(1,311)</u>
INCREASE IN NET ASSETS	11,242	4,071
NET ASSETS:		
Net assets, beginning of year	<u>58,029</u>	<u>53,958</u>
Net assets, end of year	<u>\$ 69,271</u>	<u>\$ 58,029</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 1,882	\$ 1,944
Sales and services of auxiliary operations	103	154
Other receipts	6,744	1,206
Payments to employees	(5,606)	(5,048)
Payments to vendors	(3,605)	(4,559)
Scholarships paid to students	(741)	(701)
Transfers:		
Intercampus reallocation	3,457	(58)
Other	(55)	-
Net cash flows provided by (used in) operating activities	<u>2,179</u>	<u>(7,062)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State of Nebraska noncapital appropriations	8,183	7,679
Private gifts and grants for operating use	102	259
Private gifts and bequests for endowment use	315	1,283
Net cash flows provided by noncapital financing activities	<u>8,600</u>	<u>9,221</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants and contracts	99	218
Purchases of capital assets	(443)	(404)
Interest paid on bond obligations	(153)	(174)
Payments made on lease obligations	(804)	(782)
Net cash flows used in capital and related financing activities	<u>(1,301)</u>	<u>(1,142)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	14,866	34,828
Purchases of investments	(20,983)	(37,993)
Interest on investments	1,649	1,981
Net cash flows from investing activities	<u>(4,468)</u>	<u>(1,184)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,010	(167)
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,573</u>	<u>12,740</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 17,583</u>	<u>\$ 12,573</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 14,716	\$ 9,906
Cash and cash equivalents - restricted (current)	<u>2,867</u>	<u>2,667</u>
Cash and cash equivalents - end of year	<u>\$ 17,583</u>	<u>\$ 12,573</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,037	\$ (6,131)
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation expense:	806	723
Changes in assets and liabilities:		
Accounts receivable	(322)	364
Other current assets	-	(1,185)
Accounts payable and unbilled charges, net	196	(82)
Accrued salaries, wages, and post-retirement benefits	101	4
Deferred revenues and credits	30	3
Health and other insurance claims	<u>331</u>	<u>(758)</u>
Net cash flows provided by (used in) operating activities	<u>\$ 2,179</u>	<u>\$ (7,062)</u>
NONCASH TRANSACTIONS:		
Acquisition of assets through capital leases	\$ 1	\$ -
Increase (decrease) in fair value of investments	(42)	1,768

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2005 AND 2004
(Thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents - restricted	\$ 21,468	\$ 31,790
Investments	9,615	5,605
Accounts receivable and unbilled charges, net	312	225
Capital lease obligation receivable due from other campuses	<u>307</u>	<u>1,183</u>
Total current assets	<u>31,702</u>	<u>38,803</u>
NON-CURRENT ASSETS:		
Investments	16,111	10,760
Capital lease obligation receivable due from other campuses	5,619	2,588
Other non-current assets	<u>350</u>	<u>389</u>
Total non-current assets	<u>22,080</u>	<u>13,737</u>
Total assets	<u>53,782</u>	<u>52,540</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	2,214	3,205
Bond obligations payable	16,765	9,890
Due to other campuses	<u>835</u>	<u>1,500</u>
Total current liabilities	<u>19,814</u>	<u>14,595</u>
NON-CURRENT LIABILITIES:		
Bond obligations payable, net of current portion	95,725	112,490
Deferred revenues and credits, net of current portion	<u>1,750</u>	<u>1,992</u>
Total non-current liabilities	<u>97,475</u>	<u>114,482</u>
Total liabilities	<u>117,289</u>	<u>129,077</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	(112,490)	(122,380)
Restricted for:		
Expendable:		
Plant construction	10,381	18,436
Debt service	<u>38,602</u>	<u>27,407</u>
Total net assets (deficit)	<u>\$ (63,507)</u>	<u>\$ (76,537)</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
OPERATING EXPENSES:		
Repairs and maintenance	\$ 355	\$ 456
Total operating expenses	<u>355</u>	<u>456</u>
TRANSFERS:		
Intercampus reallocation	8,230	19,127
Other	<u>(9,114)</u>	<u>(13,252)</u>
Total transfers	<u>(884)</u>	<u>5,875</u>
OPERATING INCOME (LOSS)	(1,239)	5,419
NON-OPERATING REVENUES (EXPENSES):		
Investment income	921	918
Increase (decrease) in fair value of investments	204	(617)
Increase in lease obligation	2,390	1,153
Interest expense on bond obligations	<u>(5,263)</u>	<u>(6,711)</u>
Net non-operating expenses	<u>(1,748)</u>	<u>(5,257)</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>(2,987)</u>	<u>162</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
State of Nebraska capital appropriations	5,500	5,500
Capital grants and gifts	<u>10,517</u>	<u>6,885</u>
Net other revenues, expenses, gains, or losses	<u>16,017</u>	<u>12,385</u>
INCREASE IN NET ASSETS (DEFICIT)	13,030	12,547
NET ASSETS (DEFICIT):		
Net assets (deficit), beginning of year	<u>(76,537)</u>	<u>(89,084)</u>
Net assets (deficit), end of year	<u>\$ (63,507)</u>	<u>\$ (76,537)</u>

THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to vendors	\$ (1,578)	\$(10,063)
Transfers:		
Intercampus reallocation	8,230	19,127
Other	<u>(9,114)</u>	<u>(13,252)</u>
Net cash flows used in operating activities	<u>(2,462)</u>	<u>(4,188)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	-	3,410
Grants and contracts	10,516	9,365
State capital appropriations	5,500	5,500
Principal paid on bond obligations	(9,890)	(8,615)
Defeasance of bond obligations	-	(15,276)
Interest paid on bond obligations	<u>(5,664)</u>	<u>(6,732)</u>
Net cash flows provided by (used in) capital and related financing activities	<u>462</u>	<u>(12,348)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	6,803	1,599
Purchases of investments	(15,961)	(4,999)
Interest on investments	836	960
Net cash flows used in investing activities	<u>(8,322)</u>	<u>(2,440)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,322)	(18,976)
CASH AND CASH EQUIVALENTS, beginning of year	<u>31,790</u>	<u>50,766</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 21,468</u>	<u>\$ 31,790</u>
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current) - end of year	<u>\$ 21,468</u>	<u>\$ 31,790</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,239)	\$ 5,419
Adjustments to reconcile operating income (loss) to net cash flows used in operating activities:		
Changes in assets and liabilities:		
Other current assets	433	215
Accounts payable	<u>(1,656)</u>	<u>(9,822)</u>
Net cash flows used in operating activities	<u>\$ (2,462)</u>	<u>\$ (4,188)</u>
NONCASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ 204	\$ (617)

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Regents of the University of Nebraska and
the Auditor of Public Accounts of the State of Nebraska
Lincoln, Nebraska:

We have audited the financial statements of the business-type activities and discretely presented component unit of the University of Nebraska (the University) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 11, 2005. Our report contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, and also includes a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the University of Nebraska Foundation were not audited in accordance with *Government Auditing Standards*.

Our consideration of internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the University in a separate letter dated November 11, 2005.

This report is intended solely for the information and use of the State of Nebraska Auditor of Public Accounts, Board of Regents of the University of Nebraska, management of the University, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Lincoln, Nebraska
November 11, 2005