

The University of Nebraska

*Basic Financial Statements and Additional Information
for the Years Ended June 30, 2011 and 2010
and Independent Auditors' Reports*

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on December 19, 2011

THE UNIVERSITY OF NEBRASKA

TABLE OF CONTENTS

| | Pages |
|---|--------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| COMPONENT UNIT - INDEPENDENT AUDITORS' REPORT | 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) | 4 - 16 |
| BASIC FINANCIAL STATEMENTS: | |
| Statements of Net Assets | 17 |
| Component Unit - Consolidated Statements of Financial Position | 18 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 19 |
| Component Unit - Consolidated Statements of Activities | 20 |
| Statements of Cash Flows | 21 - 22 |
| Component Unit - Consolidated Statements of Cash Flows | 23 |
| Notes to Financial Statements | 24 - 63 |
| ADDITIONAL INFORMATION: | |
| 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 <i>Government Auditing Standards</i> | 64 - 65 |



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

INDEPENDENT AUDITORS' REPORT

Board of Regents of the University of Nebraska
Lincoln, Nebraska

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska), as of and for the years ended June 30, 2011 and 2010, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associates, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture. The Blended Component Units and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture represent 24 percent, 73 percent, 4 percent, and 21 percent, respectively, of the assets, liabilities, net assets, and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, along with the Foundation report which appears herein, and our opinion, insofar as it relates to the amounts included for the Foundation, the Blended Component Units, and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, is based on the reports of the 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, the Blended Component Units, and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports 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, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 16 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Signed Original on File

Lincoln, Nebraska
December 16, 2011

Don Dunlap, CPA
Assistant Deputy Auditor



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

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

Independent Auditors' Report

The Board of Trustees
University of Nebraska Foundation:

We have audited the accompanying consolidated statement of financial position of the University of Nebraska Foundation (a Nebraska not-for-profit corporation) (the Foundation) as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 consolidated financial statements, which were audited by other auditors whose report dated September 20, 2010 and July 15, 2011 expressed an unqualified opinion on those consolidated financial statements.

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

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

KPMG LLP

September 27, 2011

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (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, 2011 and 2010. This analysis has been prepared by management of the University of Nebraska 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.

The financial statements for the University of Nebraska include five blended entities, those being the University of Nebraska Facilities Corporation (UNFC), the UNMC Physicians, the University Dental Associates, the Nebraska Utility Corporation, and the University Technology Development Corporation. Additional information regarding these entities is described in the footnotes to the financial statements.

In accordance with the guidance of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 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 UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

| Campus | Student Enrollment - Headcount | | | | |
|--------|--------------------------------|--------|--------|--------|--------|
| | Fall Semester of Fiscal Year | | | | |
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| UNL | 22,106 | 22,973 | 23,573 | 24,100 | 24,610 |
| UNMC | 3,067 | 3,128 | 3,194 | 3,237 | 3,493 |
| UNO | 13,906 | 14,156 | 14,213 | 14,620 | 14,665 |
| UNK | 6,468 | 6,478 | 6,543 | 6,650 | 6,753 |
| Total | 45,547 | 46,735 | 47,523 | 48,607 | 49,521 |

The fall semester (fiscal 2011) headcount enrollment was 49,521 students on the four campuses. This represents an increase of approximately 914 compared to the fall 2009 (fiscal 2010), a 1.9% increase, the sixth straight year of increases, and returns headcount enrollment to the highest level in a decade. The largest percent increase within the underlying demographics is professional students (up 5%), while undergraduate students increased 2.7%. The primary campus behind the increase was UNL who posted a gain of 428 undergraduate students, a 2.3% increase. Increasing enrollment is a strategic priority of the University and all campuses have 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 12,185, representing 25% 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 10% and 15%, respectively, and are attributable to several factors. First, the University's investment in the Nebraska Medical Center joint venture increased by \$22 million and is included in unrestricted net assets. Second, the trustee insurance balances increased approximately \$11 million reflecting the University efforts to maintain prudent levels of reserves for the general liability and property self-insurance and the employee group health insurance programs. Third, the University's cash reserves increased by \$4 million and UNMC Physicians, a blended entity, realized an increase in net assets of \$12 million. Lastly, the University reduced expenditures during the year to conserve State aided resources for the following biennium. Maintenance of a prudent level of reserves is a key to the long-term success of the University.
- **New Capital Construction.** Investment in capital construction followed University priorities. The following projects align behind the education, research, and public service missions and thereby make the University more competitive in continuing to attract high caliber students and faculty. At UNO, work began on the renovation of Roskens Hall, an education building, and construction was completed on Scott Court, a student residence hall. Construction of the 19th and Vine Street Parking Garage and the Athletic Student Life Complex was completed at UNL, along

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

with the renovation of the Abel Sandoz Residence and Dining Hall. Renovation of Randall Hall, a student residence hall, was completed at UNK. Construction of three Health Professions Futures structures was completed at UNMC. Construction and renovation work continues at all of the campuses on several deferred maintenance projects financed by the UNFC Series 2009 Bonds.

- **Indebtedness.** Financial performance in the areas financed by revenue bonds (unions, student residences, and parking) led to strong debt coverage ratios. The University will continue to take advantage of internally generated margins and cash flow to replace and renew these strategic assets to keep them attractive to the University community.

The UNFC issued two financings during fiscal 2011. The Eye Institute Series 2011 Bonds of \$17,740 provide bridge financing of donor pledges for the construction of an eye institute at UNMC. The NCTA Education Center/Student Housing Project Series 2011 Bonds of \$11,570 were used to construct a new Education Center classroom facility and renovate veterinary clinic facilities.

- **State appropriations.** State non-capital appropriations decreased by 1.5% in 2011 compared to 2010. The 2011 decrease followed a 1% decrease in 2010 over 2009 but which followed a 5.6% increase in 2009 over 2008. The Board of Regents approved a tuition increase of 6%. This increase permitted the Board of Regents to approve a budget to meet increases mandated by certain union contracts and operating expenses but otherwise did not provide for salary and wage increases for faculty, administrators, and staff. The University will continue to work with the State with the hope of increasing investment, which will be deployed by management strategically while at the same time using such funding to keep college affordable. The 6% tuition increase compares to a 4% increase in 2010 and 6% for 2009.
- **Federal Grants and Contracts.** Revenues from Federal grants and contracts increased by 12% in 2011, which followed a 16% increase in 2010 over 2009. Support from Federal grants and contracts was \$247 million in 2011 compared to \$221 million in 2010 and \$191 million in 2009. Revenues from Federal sources support the research and discovery efforts of the University and provide financial aid to students.
- **Capital grants and gifts.** Capital grants and gifts continue to be an important source of funding for facilities at the University. Capital grants and gifts totaled \$68 million in 2011 compared to \$89 million in 2010, and \$51 million in 2009. Even though capital gifts declined in 2011 compared to 2010, the University realized \$17 million more in 2011 compared to 2009. The largest of the gifts in 2011 included \$17 million from the Foundation for the UNMC Health Professions project, and \$19 million from the Foundation for several UNL Athletics capital projects.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

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.

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 are 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 Net of Related Debt. 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: A fund 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.
 - Non-expendable: permanent endowments.
- Unrestricted Net Assets. Comprised of the University's investment in the joint venture of the Nebraska Medical Center (NMC) of \$275 million, quasi-endowments of \$41 million, and net assets of the healthcare blended entities of \$91 million, and net assets of the self insurance programs of \$128 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 disclose 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, GASB requires that certain funding sources that are significant to the University, including State appropriations, gifts, certain Federal student aid programs, 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.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

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 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 year.

Condensed Financial Statements and Analysis

Condensed Statements of Net Assets

| | June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2009 |
| Assets | | | |
| Current assets | \$ 1,027,997 | \$ 878,216 | \$ 777,946 |
| Capital assets, net of accumulated depreciation | 1,800,768 | 1,736,116 | 1,527,199 |
| Other non-current assets | 724,906 | 724,046 | 745,251 |
| Total assets | <u>3,553,671</u> | <u>3,338,378</u> | <u>3,050,396</u> |
| Liabilities and Net Assets | | | |
| Current liabilities | 350,158 | 337,994 | 339,004 |
| Non-current liabilities | 674,641 | 692,872 | 630,750 |
| Total liabilities | <u>1,024,799</u> | <u>1,030,866</u> | <u>969,754</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,044,719 | 955,142 | 863,298 |
| Restricted for: | | | |
| Nonexpendable: | | | |
| Permanent endowment | 205,105 | 169,722 | 156,480 |
| Expendable: | | | |
| Externally restricted funds | 140,250 | 127,938 | 120,448 |
| Loan funds | 44,223 | 43,935 | 43,946 |
| Plant construction | 107,087 | 125,575 | 103,398 |
| Debt service | 168,315 | 175,655 | 179,215 |
| Unrestricted | 819,173 | 709,545 | 613,857 |
| Total net assets | <u>\$ 2,528,872</u> | <u>\$ 2,307,512</u> | <u>\$ 2,080,642</u> |

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

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

| | Year Ended June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2009 |
| Operating Revenues: | | | |
| Tuition and fees | \$ 291,855 | \$ 258,559 | \$ 245,630 |
| Federal grants and contracts - restricted | 246,802 | 221,133 | 190,661 |
| State grants and contracts - restricted | 33,644 | 33,650 | 31,884 |
| Private grants and contracts - restricted | 98,435 | 103,581 | 79,225 |
| Sales and services of educational activities | 103,977 | 73,609 | 71,040 |
| Sales and services of health care entities | 218,546 | 204,221 | 192,899 |
| Sales and services of auxiliary operations | 143,089 | 133,391 | 130,018 |
| Sales and services of auxiliary segments | 94,758 | 83,173 | 80,639 |
| Other operating revenues | 17,274 | 9,782 | 12,706 |
| Total operating revenues | <u>1,248,380</u> | <u>1,121,099</u> | <u>1,034,702</u> |
| Operating Expenses: | | | |
| Salaries and wages | 871,672 | 829,013 | 812,691 |
| Benefits | 233,204 | 214,826 | 210,594 |
| Total compensation and benefits | <u>1,104,876</u> | <u>1,043,839</u> | <u>1,023,285</u> |
| Supplies and materials | 286,556 | 231,900 | 243,746 |
| Contractual services | 127,782 | 113,097 | 101,792 |
| Repairs and maintenance | 57,368 | 76,050 | 49,898 |
| Utilities | 36,854 | 37,157 | 35,972 |
| Communications | 13,425 | 13,655 | 13,909 |
| Depreciation | 90,846 | 81,724 | 68,525 |
| Scholarships and fellowships | 69,835 | 58,702 | 50,442 |
| Total operating expenses | <u>1,787,542</u> | <u>1,656,124</u> | <u>1,587,569</u> |
| Operating Loss | <u>(539,162)</u> | <u>(535,025)</u> | <u>(552,867)</u> |
| Non-operating Revenues (Expenses): | | | |
| State of Nebraska non-capital appropriations | 489,774 | 496,963 | 501,794 |
| Federal grants | 43,784 | 35,746 | 23,486 |
| Gifts | 74,083 | 63,756 | 64,770 |
| Investment income | 32,997 | 18,396 | 21,908 |
| Increase (decrease) in fair value of investments | 42,303 | 33,452 | (65,328) |
| Interest on bond obligations | (25,495) | (19,368) | (21,081) |
| Equity in earnings of joint venture | 27,765 | 27,297 | 8,861 |
| Loss on disposal of capital assets | (12,053) | (2,479) | (1,772) |
| Net non-operating revenues | <u>673,158</u> | <u>653,763</u> | <u>532,638</u> |
| Income before Other Revenues, Expenses, Gains or Losses | 133,996 | 118,738 | (20,229) |
| Other Revenues, Expenses, Gains or Losses: | | | |
| Capital grants and gifts | 68,153 | 89,379 | 50,711 |
| State of Nebraska capital appropriations | 18,740 | 18,412 | 16,597 |
| Private gifts and bequests for permanent endowments | 471 | 341 | 995 |
| Net other revenues, expenses, gains, or losses | <u>87,364</u> | <u>108,132</u> | <u>68,303</u> |
| Increase in net assets | 221,360 | 226,870 | 48,074 |
| Net Assets: | | | |
| Net assets, beginning of year | 2,307,512 | 2,080,642 | 2,032,568 |
| Net assets, end of year | <u>\$ 2,528,872</u> | <u>\$ 2,307,512</u> | <u>\$ 2,080,642</u> |

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

Analysis of Financial Position. Cash and cash equivalents represent the preponderance of current assets of the University. Cash and cash equivalents increased each year in 2011, 2010, and 2009 due to slightly higher yields gained on cash balances in the State investment pool and unexpended bond proceeds on hand.

Non-current assets of the University are dominated by the investment in capital assets. At June 30, 2011, total investment in capital assets was \$2.5 billion, yielding a net investment, after accumulated depreciation, of \$1.8 billion. The net increase in capital assets was \$65 million, consisting of net additions of \$156 million less depreciation of \$91 million. Among the more noteworthy increases were Abel Sandoz residence and dining hall renovation at a cost of \$51 million, the 19th and Vine Parking Garage for \$13 million, and Athletic Student Life Complex for \$8 million at UNL, the Scott Court residence hall at cost of \$16 million at UNO, and the UNMC College of Public Health, Geriatrics Center and College of Nursing addition at a cost of \$36 million. Additions to construction work in progress for the deferred maintenance projects totaled \$41 million. Revenue bond proceeds under the MTI funded the Abel Sandoz renovation, the 19th and Vine Street Parking Garage, and the Scott Court Residence Hall. A UNFC bond issue bridge financed pledged donor revenues to construct the UNMC College of Public Health, Geriatrics Center, and College of Nursing addition. A capital gift from the Foundation funded the Athletic Student Life Complex. The additions to deferred maintenance construction work in progress were financed by the UNFC Series 2009 Bonds proceeds.

Net indebtedness decreased by \$16 million in 2011 compared to increases of \$58 million and \$49 million in 2010 and 2009. New indebtedness issued was \$29 million in 2011 with \$118 million and \$78 million issued in 2010 and 2009. The bond issuances in 2011 are accounted for by two UNFC issues, those being the UNMC Eye Institute and the NCTA Education Center/Student Housing Project.

The unrestricted net assets of the University grew by 15% or \$110 million during the year to \$819 million. As discussed earlier, the growth is primarily attributable to the University's equity in the NMC joint venture, positive experiences in self insurance activities, and departmental and college savings.

Analysis of Operations – Overview. The University generated \$1,248 million of operating revenues during 2011, an increase of \$127 million over 2010, while operating expenses were \$1,787 million, up \$131 million over the prior year. These changes resulted in a relatively unchanged operating loss of \$539 million for 2011 compared to 2010. 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.

If appropriations were added to the operating loss as displayed in the statements of revenues, expenses, and changes in net assets, the University's "operating loss after appropriations" would have been \$49 million in 2011 compared to similar "losses" of \$38 million and \$51 million in 2010 and 2009, respectively. To management of the University, this consistent financial performance underscores the importance of continuing solid State support combined with modest tuition and increased grants and contract activity in fostering the stability of the enterprise.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

The Nebraska Legislature provided \$490 million in non-capital appropriations for 2011, a decrease of \$7 million over 2010 and a similar decrease of \$5 million in 2010 over 2009, but that followed a \$27 million increase from 2008 to 2009. Continued State investment is vital in helping the University to achieve its goals of accessibility and affordability. The University, in conjunction with the Foundation, generated non-operating and capital gifts of approximately \$142 million that, when combined with all other non-operating revenues and expenses including investment income of \$33 million, netted an overall increase in net assets of about \$221 million.

Revenues. The following chart depicts the revenues for 2011 and 2010 and the comparative changes that occurred between those years.

| | 2011 | | 2010 | | 2011-2010 Change | |
|--|---------------------|-------------|---------------------|-------------|-------------------|------------|
| | Amount | % of Total | Amount | % of Total | Dollars | Percent |
| Tuition and fees | \$ 291,855 | 23% | \$ 258,559 | 23% | \$ 33,296 | 13% |
| Federal grants and contracts - restricted | 246,802 | 20 | 221,133 | 20 | 25,669 | 12 |
| State grants and contracts - restricted | 33,644 | 3 | 33,650 | 3 | (6) | - |
| Private grants and contracts - restricted | 98,435 | 8 | 103,581 | 9 | (5,146) | (5) |
| Sales and services of educational activities | 103,977 | 8 | 73,609 | 7 | 30,368 | 41 |
| Sales and services of health care entities | 218,546 | 18 | 204,221 | 18 | 14,325 | 7 |
| Sales and services of auxiliary operations | 143,089 | 11 | 133,391 | 12 | 9,698 | 7 |
| Sales and services of auxiliary segments | 94,758 | 8 | 83,173 | 7 | 11,585 | 14 |
| Other operating revenues | 17,274 | 1 | 9,782 | 1 | 7,492 | 77 |
| Total operating revenues | <u>\$ 1,248,380</u> | <u>100%</u> | <u>\$ 1,121,099</u> | <u>100%</u> | <u>\$ 127,281</u> | <u>11%</u> |

The University's operating revenues increased in fiscal year 2011 by 11%, or \$127 million. Most of the revenue sources showed increases from the prior year. A three year comparison of revenues for the years 2011, 2010, and 2009 is presented on page 9.

- The largest increase in revenues was realized from tuition, which increased on a net basis by \$33 million for the 2011 year. The Board of Regents approved an increase in tuition of 6%, which when coupled with a 2% increase in enrollment, yielded a 13% increase in revenue. Tuition from growth in online world wide distance education classes rounded out the total increase.
- The second largest increase in revenue was realized from sales and services of educational activities which increased by \$30 million for the 2011 year. The increase is attributable to additional revenues of NUTech Ventures, a blended entity, and agricultural research revenues realized from higher commodity prices for the sale of agricultural products marketed by the research division of the Institute of Agriculture and Natural Resources.
- The third largest increase in revenue was realized from Federal grants and contracts and student aid, which increased by 12% during 2011 compared to increases of 16% and 8% in 2010 and 2009, respectively. The 2011 increase is attributed to additional funding from several agencies, including the Department of Health and Human Services and the Department of Education.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

- An increase of 7% was realized from sales and services of health care entities, which increased by \$14 million dollars for the 2011 year after an increase of 6% in 2010 over 2009. UNMC Physicians, a blended entity, experienced an 8% increase in growth from the expansion of its clinical programs with revenues increasing by \$14 million.
- Sales and services of auxiliary operations increased by 10% in 2011 compared to 2010 because of revenues from newly constructed student residences, high occupancies in student residences, and a 5.5% increase in housing rates. Increases in athletic revenues from ticket prices, increased attendance, and concession revenues contributed to the growth in revenues.

Expenses. The following chart shows the University's expenses for 2011 and 2010 and comparative changes that occurred between those years. A three year comparison of expenses for the years 2011, 2010, and 2009 is presented on page 9.

| | 2011 | | 2010 | | 2011-2010 Change | |
|------------------------------|---------------------|-------------|---------------------|-------------|-------------------|-----------|
| | Amount | % of Total | Amount | % of Total | Dollars | Percent |
| Compensation and benefits | \$ 1,104,876 | 62% | \$ 1,043,839 | 63% | \$ 61,037 | 6% |
| Supplies and materials | 286,556 | 16 | 231,900 | 14 | 54,656 | 24 |
| Contractual services | 127,782 | 7 | 113,097 | 7 | 14,685 | 13 |
| Repairs and maintenance | 57,368 | 3 | 76,050 | 4 | (18,682) | (25) |
| Utilities | 36,854 | 2 | 37,157 | 2 | (303) | (1) |
| Communications | 13,425 | 1 | 13,655 | 1 | (230) | (2) |
| Depreciation | 90,846 | 5 | 81,724 | 5 | 9,122 | 11 |
| Scholarships and fellowships | 69,835 | 4 | 58,702 | 4 | 11,133 | 19 |
| Total operating expenses | <u>\$ 1,787,542</u> | <u>100%</u> | <u>\$ 1,656,124</u> | <u>100%</u> | <u>\$ 131,418</u> | <u>8%</u> |

Operating expenses increased by \$131 million for the 2011 fiscal year, an increase of 8% compared to 2010. Changes in the major expense classifications follow.

- Compensation and benefits increased by 6% in 2011 after a 2% increase in 2010 compared to 2009 and accounts for 46% of the total increase in expenses for the University. Faculty salaries and benefits increased between 1.3% and 2.5% in certain areas. Salaries and benefits also increased because of increases in research (which grew by \$25 million), the largest component of which is salaries. Additional amounts were expended for targeted areas including continued support for programs of excellence, funding for instructional workload salaries, research initiative programs, maintenance services for newly opened facilities, and intercampus development.
- Supplies and materials is the second largest expense after compensation and benefits and increased by 24% in 2011 reflecting increased research expenditures and inflationary pressures on the supplies and materials necessary to perform research functions and to carry on the general activity of the University
- Repairs and maintenance was \$57 million in 2011, a decrease from 2010, but a \$7 million increase over 2009 and shows a steady commitment to maintain capital assets. The \$26 million increase in 2010 over 2009 is attributed to a significant outlay for upgrades to buildings and facilities that was partially funded by ARRA energy efficiency grants.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

- Utilities expense decreased slightly, with increases in energy consumption by newly occupied facilities offset by savings realized from energy conservation measures. Projects undertaken to reduce consumption included chiller replacements, window replacements, and other deferred maintenance projects.
- A 13% increase in contractual services in 2011 followed an 11% increase in 2010 over 2009, and is attributed to increases in sub-grantee awards and a 5% increase in contractual payments to medical specialists by UNMC Physicians, a blended entity.
- Scholarships and fellowships grew by \$11 million. The growth is attributed to additional students, tuition increases, and additional Federal Pell grants partially funded by ARRA support from the Department of Education.

Non-Operating Revenues (Expenses). Net non-operating revenues increased during 2011 compared to 2010 by \$19 million. This change is primarily driven by the net result of a year-over-year increase in fair value of investments of \$9 million and an increase in investment income of \$15 million.

Thanks to vital support from the private sector and the Foundation, the University garnered non-capital and capital gifts during the year of \$74 million and \$68 million respectively. This compares to \$64 million and \$89 million during 2010. Non-capital gifts support scholarships to students and a variety of academic and research pursuits.

Other Revenues, Expenses, Gains, or Losses. State of Nebraska capital appropriations remained at the same level of \$18 million in 2011 and 2010, which is higher by \$2 million compared to 2009. The capital appropriations in 2011 and 2010 included a total of \$11 million for debt service on both the 2006 and 2009 Series of deferred maintenance bonds and \$7 million for fire and life safety projects.

Capital Assets

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

- Construction of the College of Public Health, Center for Aging, and the College of Nursing addition was completed at a cost of \$36 million at UNMC. Financing for this project came from UNFC bonds to bridge finance pledged donor revenues. The new facilities are home to several health related departments.
- The renovation of the Abel Sandoz Residence and Dining was completed at a cost of \$51 million. The project was financed by revenue bonds issued under the MTI.
- Work continued on several deferred maintenance projects financed by the UNFC Deferred Maintenance Bonds, including Wittson Hall at a cost of \$2 million at UNMC. Revenues to repay the UNFC Deferred Maintenance Bonds include capital appropriations from the Nebraska Legislature and designated matching tuition revenue approved by the Board of Regents.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

- The cGMP Project was completed at UNMC, funded by private gifts at cost of \$6 million. The new facility is critical to the advancement of oncology and transplantation at the UNMC campus.
- The renovation of a student residence, Randall Hall, was completed at UNK at a cost of \$3 million. The renovation was funded from the Surplus Fund held by the UNK Student Housing bond issue.
- The construction of Scott Court, a student residence hall, was completed at UNO at cost of \$16 million. The project was financed by revenue bonds issued under the MTI.
- Construction of the Athletic Student Life Complex was completed at UNL at a cost of \$8 million. The project was funded by a capital gift from the Foundation.
- 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.

More information on capital asset activity is disclosed in the Notes to the Financial Statements included in this report on page 34.

Debt Activity

Bond Financings. The University marketed two new bond financings during 2011 through the University of Nebraska Facilities Corporation.

- On June 22, 2011, the UNFC issued \$17,740 of UNMC Eye Institute Bonds, Series 2011, to finance the construction of a new Eye Institute building at UNMC. A finance agreement with the Board of Regents of the University of Nebraska provides for bridge financing of pledged donor revenues to pay the principal and interest due on the Eye Institute bonds.
- On February 2, 2011, the UNFC issued \$11,570 of NCTA Education Center/Housing Project Bonds, Series 2011, to finance the construction of a new classroom building, the renovation of other instructional facilities, and the construction of a new residence hall at the Nebraska College of Technical Agriculture (NCTA). A lease rental agreement with the University of Nebraska and certain appropriations by the Nebraska Legislature and housing revenues provide for principal and interest payments for the repayment of the NCTA 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, parking, and student unions. The financial position of the MTI remains strong with operating income that provided a debt service ratio of 1.6 times for the year ended June 30, 2011, compared to 1.5 times for the year ended June 30, 2010, and 1.6 times for the year ended June 30, 2009. The debt service ratio required by the MTI covenants is 1.15 times.

The UNFC met all debt service requirements during 2011. 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

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010 (UNAUDITED) (Columnar Amounts in Thousands)

receive funds from donor gifts pledged toward the funding of the gift-funded projects. Funds from internal University Sources continue to meet expectations allowing the service of UNFC-related debt obligations in their normal course.

More information on debt financing is disclosed on page 35 in the Notes to Financial Statements included in this report.

Economic Outlook and Subsequent Events That Will Affect the Future

The University of Nebraska, as the State's predominant public education and research university, is an important component in driving the economic success of Nebraska. Economic development takes many forms in a major university, running the gamut from educating and retaining the best and brightest to research growth, tech transfer, and its by-product of job creation. This university-state partnership in fostering a climate of success also means, like other major land-grant universities, that State funding plays an important part in fueling the success of the University in many areas.

The outlook for the University is good. The Nebraska Legislature in its 2011 session approved and the Governor signed the mainline appropriations bill which gave the University of Nebraska \$491 million and \$498 million of appropriations for the 2011-2012 and the 2012-2013 fiscal years, respectively. This represents a \$3 million decrease (-0.7%), followed by a \$7 million increase (1.3%). The University received capital appropriations over the 2011-2013 biennium of \$25 million, with that funding targeted for Phase I building projects on the Nebraska Innovation Campus located on the former state fairgrounds in Lincoln. Commenting on the operating and capital budgeting outcomes, University President J.B. Milliken stated "This budget reflects our commitment to playing a key role in growing Nebraska's knowledge-based innovation economy. Although the operating budget requires some difficult reallocations, it puts the university in a much stronger position than many of our peers across the country. The University is pleased of the importance attached to higher education and innovation in Nebraska as signaled by the Governor and the Legislature holding (University) funding flat in trying economic times, while investing in the future."

Further bolstering the economic outlook was the Nebraska Economic Forecasting Advisory Board's projections. In its October 2011 meeting, for the two-year budget period ending June 30, 2013 the Forecasting Board projected revenue gains of \$113 million. Driven by a strong agricultural economy and low unemployment, (4.2% versus a national benchmark of 9.1%), Nebraska's median household income grew faster than that of any other State last year. This bodes well for Nebraska's economic outlook.

In a focused effort to chart the future direction of resource deployment at the University of Nebraska, 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, and outreach and engagement. Among those priorities are:

- Enrollment – Growing enrollment through a number of initiatives including growing the college-going rate.

THE UNIVERSITY OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2010 and 2009 (UNAUDITED) (Columnar Amounts in Thousands)

- 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 – Focusing on achieving decreases in 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 of Nebraska 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

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

(Thousands)

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

| | 2011 | 2010 |
|--|--------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 473,429 | \$ 390,844 |
| Cash and cash equivalents - restricted | 127,353 | 106,174 |
| Cash and cash equivalents held by trustee - restricted | 48,591 | 53,529 |
| Investments - restricted | 143,959 | 123,921 |
| Investments held by trustee - restricted | 39,597 | 21,972 |
| Accounts receivable and unbilled charges, net | 165,601 | 156,673 |
| Loans to students, net | 4,952 | 4,695 |
| Other current assets | 24,515 | 20,408 |
| Total current assets | <u>1,027,997</u> | <u>878,216</u> |
| NON-CURRENT ASSETS: | | |
| Cash and cash equivalents - restricted | 2,321 | 3,462 |
| Cash and cash equivalents held by trustee - restricted | 101,579 | 140,606 |
| Investments - restricted | 269,470 | 222,939 |
| Investments held by trustee - restricted | 30,634 | 59,279 |
| Investment in joint venture | 275,175 | 253,410 |
| Loans to students, net of current portion | 29,581 | 31,892 |
| Capital assets, net of accumulated depreciation | 1,800,768 | 1,736,116 |
| Other non-current assets | 16,146 | 12,458 |
| Total non-current assets | <u>2,525,674</u> | <u>2,460,162</u> |
| Total assets | <u>3,553,671</u> | <u>3,338,378</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 89,851 | 101,771 |
| Accrued salaries, wages, and post-retirement benefits | 59,167 | 51,365 |
| Accrued compensated absences | 53,657 | 52,480 |
| Bond obligations payable | 44,540 | 42,600 |
| Capital lease obligations | 1,621 | 2,461 |
| Deferred revenues and credits | 87,161 | 75,799 |
| Health and other insurance claims | 14,161 | 11,518 |
| Total current liabilities | <u>350,158</u> | <u>337,994</u> |
| NON-CURRENT LIABILITIES: | | |
| Accrued salaries, wages and post-retirement benefits, net of current portion | 244 | 483 |
| Accrued compensated absences, net of current portion | 17,332 | 17,561 |
| Bond obligations payable, net of current portion | 640,245 | 658,105 |
| Capital lease obligations, net of current portion | 3,442 | 4,125 |
| Deferred revenues and credits, net of current portion | 13,378 | 12,598 |
| Total non-current liabilities | <u>674,641</u> | <u>692,872</u> |
| Total liabilities | <u>1,024,799</u> | <u>1,030,866</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 1,044,719 | 955,142 |
| Restricted for: | | |
| Nonexpendable: | | |
| Permanent endowment | 205,105 | 169,722 |
| Expendable: | | |
| Externally restricted funds for scholarships, student aid, and research | 140,250 | 127,938 |
| Loan funds | 44,223 | 43,935 |
| Plant construction | 107,087 | 125,575 |
| Debt service | 168,315 | 175,655 |
| Unrestricted | 819,173 | 709,545 |
| Total net assets | <u>\$2,528,872</u> | <u>\$2,307,512</u> |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, and 3)

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,055 | \$ 4,963 |
| Temporary investments | 286,091 | 250,364 |
| Pledges receivable | 151,118 | 137,968 |
| Other receivables | 2,992 | 3,650 |
| Investments | 1,300,445 | 1,081,642 |
| Property and equipment, net of depreciation | <u>6,830</u> | <u>7,878</u> |
| Total assets | <u>\$ 1,749,531</u> | <u>\$ 1,486,465</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ 901 | \$ 1,680 |
| University of Nebraska benefits payable | 2,837 | 1,770 |
| Scholarships, research, fellowships and professorships payable | 10,666 | 2,820 |
| Deferred annuities payable | 22,848 | 23,041 |
| Deposits held in custody for others | 281,001 | 235,719 |
| Deferred revenues | <u>3,645</u> | <u>3,715</u> |
| Total liabilities | <u>321,898</u> | <u>268,745</u> |
| NET ASSETS: | | |
| Unrestricted | 14,332 | (12,203) |
| Temporarily restricted | 709,174 | 593,682 |
| Permanently restricted | <u>704,127</u> | <u>636,241</u> |
| Total net assets | <u>1,427,633</u> | <u>1,217,720</u> |
| Total liabilities and net assets | <u>\$ 1,749,531</u> | <u>\$ 1,486,465</u> |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (Thousands)

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

| | 2011 | 2010 |
|--|--------------------|--------------------|
| OPERATING REVENUES: | | |
| Tuition and fees (net of scholarship allowances of \$85,229 and \$82,285 in 2011 and 2010, respectively) | \$ 291,855 | \$ 258,559 |
| Federal grants and contracts - restricted | 246,802 | 221,133 |
| State and local grants and contracts - restricted | 33,644 | 33,650 |
| Private grants and contracts - restricted | 98,435 | 103,581 |
| Sales and services of educational activities | 103,977 | 73,609 |
| Sales and services of health care entities | 218,546 | 204,221 |
| Sales and services of auxiliary operations | 143,089 | 133,391 |
| Sales and services of auxiliary segments (net of scholarship allowances of \$12,212 and \$10,370 in 2011 and 2010, respectively) | 94,758 | 83,173 |
| Other operating revenues | 17,274 | 9,782 |
| Total operating revenues | <u>1,248,380</u> | <u>1,121,099</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 871,672 | 829,013 |
| Benefits | 233,204 | 214,826 |
| Total compensation and benefits | 1,104,876 | 1,043,839 |
| Supplies and materials | 286,556 | 231,900 |
| Contractual services | 127,782 | 113,097 |
| Repairs and maintenance | 57,368 | 76,050 |
| Utilities | 36,854 | 37,157 |
| Communications | 13,425 | 13,655 |
| Depreciation | 90,846 | 81,724 |
| Scholarships and fellowships | 69,835 | 58,702 |
| Total operating expenses | <u>1,787,542</u> | <u>1,656,124</u> |
| OPERATING LOSS | <u>(539,162)</u> | <u>(535,025)</u> |
| NON-OPERATING REVENUES (EXPENSES): | | |
| State of Nebraska non-capital appropriations | 489,774 | 496,963 |
| Federal Grants | 43,784 | 35,746 |
| Gifts | 74,083 | 63,756 |
| Investment income (net of investment management fees of \$2,511 and \$2,213 in 2011 and 2010, respectively) | 32,997 | 18,396 |
| Increase in fair value of investments | 42,303 | 33,452 |
| Interest on bond obligations | (25,495) | (19,368) |
| Equity in earnings of joint venture | 27,765 | 27,297 |
| Loss on disposal of capital assets | (12,053) | (2,479) |
| Net non-operating revenues | <u>673,158</u> | <u>653,763</u> |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | <u>133,996</u> | <u>118,738</u> |
| OTHER REVENUES, EXPENSES, GAINS, OR LOSSES: | | |
| Capital grants and gifts | 68,153 | 89,379 |
| State of Nebraska capital appropriations | 18,740 | 18,412 |
| Private gifts and bequests for permanent endowments | 471 | 341 |
| Net other revenues, expenses, gains, or losses | <u>87,364</u> | <u>108,132</u> |
| INCREASE IN NET ASSETS | 221,360 | 226,870 |
| NET ASSETS: | | |
| Net assets, beginning of year | <u>2,307,512</u> | <u>2,080,642</u> |
| Net assets, end of year | <u>\$2,528,872</u> | <u>\$2,307,512</u> |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(with summarized financial information for the year ended June 30, 2010)
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, and 3)

| | 2011 | | | Total | 2010 Total |
|--|-----------------|---------------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| REVENUES AND GAINS: | | | | | |
| Gifts, bequests and life insurance proceeds | \$ 68 | \$104,161 | \$ 67,886 | \$ 172,115 | \$ 136,894 |
| Investment income | 22,894 | 7,147 | - | 30,041 | 34,938 |
| Change in value of split-interest agreements | - | 236 | - | 236 | - |
| Realized gain (loss) on investments, net | 6 | 48,952 | - | 48,958 | (17,326) |
| Unrealized gain on investments, net | 28,674 | 91,985 | - | 120,659 | 82,932 |
| | 51,642 | 252,481 | 67,886 | 372,009 | 237,438 |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>136,989</u> | <u>(136,989)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues and gains | <u>188,631</u> | <u>115,492</u> | <u>67,886</u> | <u>372,009</u> | <u>237,438</u> |
| EXPENSES AND LOSSES: | | | | | |
| Salaries and wages | 10,983 | - | - | 10,983 | 10,089 |
| Payroll taxes | 752 | - | - | 752 | 692 |
| Employee benefits | 2,267 | - | - | 2,267 | 2,087 |
| Postage | 211 | - | - | 211 | 261 |
| Office supplies and expense | 155 | - | - | 155 | 205 |
| Professional services | 514 | - | - | 514 | 174 |
| Travel and entertainment | 825 | - | - | 825 | 742 |
| Telephone | 245 | - | - | 245 | 208 |
| Insurance and bonds | 109 | - | - | 109 | 99 |
| Repair and maintenance | 427 | - | - | 427 | 317 |
| Equipment rental/purchase | 36 | - | - | 36 | 30 |
| Office rent | 1,548 | - | - | 1,548 | 1,504 |
| University Towers expense | 32 | - | - | 32 | 28 |
| Promotion expense | 2,045 | - | - | 2,045 | 2,185 |
| Auto expense | 113 | - | - | 113 | 110 |
| Dues and subscriptions | 143 | - | - | 143 | 144 |
| Alumni Associations | 1,028 | - | - | 1,028 | 1,028 |
| Miscellaneous expense | 162 | - | - | 162 | 124 |
| Recruiting and moving expense | 17 | - | - | 17 | 29 |
| Meetings and conferences | 270 | - | - | 270 | 220 |
| Investment expense | 6,248 | - | - | 6,248 | 4,722 |
| Academic support | 30,355 | - | - | 30,355 | 30,291 |
| Student assistance | 23,570 | - | - | 23,570 | 18,025 |
| Faculty assistance | 5,069 | - | - | 5,069 | 4,907 |
| Research | 7,125 | - | - | 7,125 | 6,095 |
| Museum, library, and fine arts | 5,100 | - | - | 5,100 | 1,027 |
| Campus and building improvements | 57,877 | - | - | 57,877 | 45,848 |
| Deferred compensation | 34 | - | - | 34 | 35 |
| Paid to beneficiaries | 3,483 | - | - | 3,483 | 3,108 |
| Bad debt and collection expense | 7 | - | - | 7 | 8 |
| Depreciation | 1,348 | - | - | 1,348 | 1,830 |
| Total expenses and losses | <u>162,098</u> | <u>-</u> | <u>-</u> | <u>162,098</u> | <u>136,172</u> |
| INCREASE IN NET ASSETS | 26,535 | 115,492 | 67,886 | 209,913 | 101,266 |
| NET ASSETS at beginning of year | <u>(12,203)</u> | <u>593,682</u> | <u>636,241</u> | <u>1,217,720</u> | <u>1,116,454</u> |
| NET ASSETS at end of year | <u>\$14,332</u> | <u>\$709,174</u> | <u>\$704,127</u> | <u>\$ 1,427,633</u> | <u>\$ 1,217,720</u> |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (Thousands)

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

| | 2011 | 2010 |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Grants and contracts | \$ 392,780 | \$ 383,590 |
| Tuition and fees | 292,706 | 254,216 |
| Sales and services of health care entities | 195,546 | 169,732 |
| Sales and services of auxiliary operations | 142,230 | 133,832 |
| Sales and services of educational activities | 123,336 | 100,404 |
| Sales and services of auxiliary segments | 95,757 | 83,781 |
| Student loans collected | 5,446 | 5,242 |
| Other receipts | 29,925 | 15,701 |
| Payments to employees | (1,092,364) | (1,038,723) |
| Payments to vendors | (553,595) | (490,663) |
| Scholarships paid to students | (69,835) | (58,702) |
| Student loans issued | (3,607) | (4,766) |
| Other payments | (260) | (179) |
| Net cash flows from operating activities | <u>(441,935)</u> | <u>(446,535)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| State of Nebraska non-capital appropriations | 490,008 | 496,661 |
| Federal grants | 43,784 | 35,746 |
| Gifts | 75,689 | 57,964 |
| Private gifts and bequests for endowment use | 472 | 2,991 |
| Direct lending receipts | 235,660 | 110,680 |
| Direct lending payments | <u>(235,660)</u> | <u>(110,680)</u> |
| Net cash flows from non-capital financing activities | <u>609,953</u> | <u>593,362</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from the issuance of bonds | 48,257 | 122,427 |
| Capital grants and gifts | 73,608 | 49,579 |
| State of Nebraska capital appropriations | 19,146 | 18,108 |
| Purchases of capital assets | (177,519) | (262,993) |
| Principal paid on bond obligations | (43,285) | (60,735) |
| Interest paid on bond obligations | (31,441) | (24,558) |
| Defeasance of bond obligations | (17,909) | - |
| Payments made on lease obligations | (6,506) | (8,543) |
| Payment of bond financial expense | (100) | - |
| Net cash flows from capital and related financing activities | <u>(135,749)</u> | <u>(166,715)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | 490,330 | 426,827 |
| Interest on investments | 33,247 | 18,573 |
| Distributions received from joint venture | 6,000 | 6,000 |
| Purchases of investments | <u>(503,188)</u> | <u>(397,351)</u> |
| Net cash flows from investing activities | <u>26,389</u> | <u>54,049</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 58,658 | 34,161 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>694,615</u> | <u>660,454</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 753,273</u> | <u>\$ 694,615</u> |

See notes to financial statements.

(Continued)

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (Thousands)

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

| | 2011 | 2010 |
|--|---------------------|---------------------|
| CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS: | | |
| Cash and cash equivalents (current) | \$ 473,429 | \$ 390,844 |
| Cash and cash equivalents - restricted (current) | 127,353 | 106,174 |
| Cash and cash equivalents held by trustee - restricted (current) | 48,591 | 53,529 |
| Cash and cash equivalents - restricted (non-current) | 2,321 | 3,462 |
| Cash and cash equivalents held by trustee - restricted (non-current) | <u>101,579</u> | <u>140,606</u> |
| Cash and cash equivalents, end of year | <u>\$ 753,273</u> | <u>\$ 694,615</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating loss | \$ (539,162) | \$ (535,025) |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | |
| Depreciation expense | 90,846 | 81,724 |
| Changes in assets and liabilities: | | |
| Accounts receivable and unbilled charges, net | (19,135) | (5,588) |
| Loans to students | 2,067 | 552 |
| Other current assets | (2,586) | (1,780) |
| Accounts payable | 5,513 | 15,209 |
| Accrued salaries, wages, compensated absences, and post-retirement benefits | 8,487 | 3,759 |
| Deferred revenues and credits | 12,091 | (6,317) |
| Health and other insurance claims | <u>(56)</u> | <u>931</u> |
| Net cash flows from operating activities | <u>\$ (441,935)</u> | <u>\$ (446,535)</u> |
| NON-CASH TRANSACTIONS: | | |
| Capital gifts and grants | \$ 681 | \$ 91 |
| Increase in fair value of investments | 42,303 | 33,452 |
| Purchase of capital assets through lease obligations | 4,983 | 5,770 |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(with comparative information for the year ended June 30, 2010)
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

| | 2011 | 2010 |
|--|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 209,913 | \$ 101,266 |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation | 1,348 | 1,830 |
| Realized (gain) loss on investments, net | (48,959) | 17,326 |
| Unrealized gain on investments, net | (120,659) | (82,932) |
| Contribution to permanently restricted endowment funds | (67,886) | (59,918) |
| Real and personal property contributions received | (2,383) | (351) |
| (Increase) Decrease in: | | |
| Pledges receivable | (8,668) | (35,933) |
| Other receivables | 576 | 454 |
| (Decrease) Increase in: | | |
| Accounts payable and accrued liabilities | (779) | 908 |
| University of Nebraska benefits payable | 1,067 | 494 |
| Scholarships, research, fellowships, and professorships payable | 7,845 | (3,151) |
| Deferred annuities payable | (193) | 910 |
| Deposits held in custody for others | 6,470 | (16,535) |
| Deferred revenue | (70) | (60) |
| Net cash used in operating activities | <u>(22,378)</u> | <u>(75,692)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of temporary investments | (374,350) | - |
| Proceeds from sale and maturity of temporary investments | 338,623 | 30,619 |
| Net decrease (increase) in student loans | 82 | (154) |
| Purchase of investments | (221,408) | (11,134) |
| Proceeds from sale and maturity of investments | 213,418 | - |
| Purchase of property and equipment | (299) | (776) |
| Net cash (used in) provided by investing activities | <u>(43,934)</u> | <u>18,555</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Contribution to permanently restricted endowment funds | 63,404 | 59,919 |
| Net cash provided by financing activities | <u>63,404</u> | <u>59,919</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (2,908) | 2,782 |
| CASH AND CASH EQUIVALENTS, beginning of year | 4,963 | 2,181 |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 2,055</u> | <u>\$ 4,963</u> |

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (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 U.S. generally accepted accounting principles 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.

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.

The University’s financial reporting entity consists of the University and 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 UNMC Physicians is a not-for-profit corporation organized by the Board of Regents for the purpose of billing, collecting, and distributing medical service fees generated by clinicians employed by the University of Nebraska Medical Center (UNMC). The distribution of fees is governed by the terms of the University of Nebraska Medical Services Plan applicable to the member clinicians.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

- The University Dental Associates (UDA) is a not-for-profit corporation organized for the purpose of billing, collecting, and distributing dental service fees generated by dentists employed by the UNMC. The distribution of fees is governed by the terms of the University of Nebraska Dental Service Plan applicable to 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 University Technological Development Center (UTDC) was organized to support the research mission of the University and its campuses and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research and new venture agreements. The blended entity consists of the UTDC activity and the activities of three nonprofit subsidiaries and one for profit subsidiary. UTDC is the sole member/stockholder of each subsidiary.

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

The University of Nebraska Foundation's (the Foundation) financial statements are discretely presented within the University's financial statements. The Foundation is a non-profit 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 Statements of 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 Note R).

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 and cash and cash equivalents – restricted are stated at fair value. Cash and cash equivalents – restricted is cash received from external sources designated for specific purposes. 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.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Cash and cash equivalents held by trustee – restricted is cash held by bond fund trustees and held for the purposes designated by the respective bond covenants.

For purposes of the statements of cash flows, cash includes cash and cash equivalents, both unrestricted and restricted, and cash and cash equivalents held by trustee – 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.

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. At UNL and for certain research buildings at UNMC, estimated useful lives for buildings 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.

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. It is the University's policy that library books are not capitalized.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the University during 2011 and 2010 was \$25,495 and \$19,368, respectively, which is net of \$2,189 and \$4,118 that was capitalized.

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. U.S. generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

Accrued Compensated Absences – University faculty and staff earn 12 to 25 days of vacation annually. Vacation is no longer earned once an employee accrues 280 hours of unused vacation. Any unused accrued vacation balance is carried over into the next year. Vacation may be used or received as a cash payment upon retirement or termination. In addition, certain classified staff receives a cash payment of one-fourth of accrued sick leave upon retirement from the University. The University has recognized a

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 subject to a 32 hour cap.

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.

Classification of Revenues and Expenses – The University has classified its revenues and expenses as either operating or non-operating revenues and expenses according to the following criteria:

Operating Revenues and Expenses – Operating revenues and expenses include activities that have the characteristics of exchange transactions.

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, contributions, State appropriations, investment income, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

Non-Operating Expenses – Non-operating expenses are activities of non-operating nature and include interest expense on bond obligations and loss on disposal of capital assets.

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 corresponding revenue. Accordingly, at June 30, 2011 and 2010, Federal grants and contracts includes Pell grant awards amounting to \$45,527 and \$37,497, respectively, and are also included in Scholarships and Fellowships expense. For employee tuition waivers, the University records a benefit expense and corresponding revenue. Ford direct student loans amounting to \$235,660 and \$110,680 at June 30, 2011 and 2010, respectively, are treated as agency funds.

Health and Other Insurance Claims – The University is partially self-insured for comprehensive general liability, auto liability, property losses, and group health and dental liability. The 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 is 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.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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

Reclassifications – Certain 2010 amounts have been reclassified to conform to the current year presentation.

B. DEPOSITS

Custodial credit risk – In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a formal custodial risk policy. Bank balances of cash and cash equivalents amounted to approximately \$2,357 (book balance of approximately \$1,948) at June 30, 2011, with approximately \$2,087 covered by Federal depository insurance. Bank balances of cash and cash equivalents amounted to approximately \$2,088 (book balance of approximately \$1,667) at June 30, 2010, with approximately \$2,066 covered by Federal depository insurance. Of the remaining bank balance at June 30, 2011 and 2010, approximately \$270 and \$22 was collateralized with securities held by the pledging financial institution, but not in the University's name, leaving no uninsured and uncollateralized bank balances for either year.

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 and its designated investment managers, in conjunction with the State Investment Officer, 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.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Investments as of June 30, 2011:

| | Fair Value | Investment Maturities (in years) | | | |
|---|-------------------|----------------------------------|------------------|------------------|------------------|
| | | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Investment type: | | | | | |
| Debt securities: | | | | | |
| Certificates of Deposit | \$ 259 | \$ - | \$ 259 | \$ - | \$ - |
| U.S. treasuries | 34,637 | 15,251 | 8,696 | 10,690 | - |
| U.S. agencies | 89,681 | 25,250 | 23,479 (1) | 7,632 (2) | 33,320 (4) |
| Municipal | 3,494 | - | 2,442 | 1,052 | - |
| Corporate debt | 52,256 | 6,871 | 25,662 | 16,193 (3) | 3,530 |
| International bonds | 10,766 | - | - | - | 10,766 |
| Repurchase agreements | 5,823 | - | 5,823 | - | - |
| | <u>196,916</u> | <u>\$ 47,372</u> | <u>\$ 66,361</u> | <u>\$ 35,567</u> | <u>\$ 47,616</u> |
| Other investments: | | | | | |
| Equity securities - domestic | 134,828 | | | | |
| Equity securities - international | 55,477 | | | | |
| Mutual funds | 82,831 | | | | |
| Real estate mutual funds | 8,592 | | | | |
| Real estate held for investment purposes | 932 | | | | |
| Money market funds | 4,084 | | | | |
| Total | <u>\$ 483,660</u> | | | | |

(1) This amount includes \$2,112 of bonds which are callable in less than 1 year.

(2) This amount includes \$2,633 of bonds which are callable in less than 1 year.

(3) This amount includes \$1,533 of bonds which are callable in less than 4 years and \$110 of bonds which are callable in less than 6 years.

(4) This amount includes \$320 of bonds which are callable in less than 1 year, \$842 callable in less than 8 years and \$2,334 callable in less than 14 years.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Investments as of June 30, 2010:

| | Fair Value | Investment Maturities (in years) | | | |
|---|-------------------|----------------------------------|-------------------|------------------|------------------|
| | | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Investment type: | | | | | |
| Debt securities: | | | | | |
| Certificates of Deposit | \$ 256 | \$ - | \$ 256 | \$ - | \$ - |
| U.S. treasuries | 35,621 | 3,998 | 14,741 | 16,882 | - |
| U.S. agencies | 92,766 | 28,360 | 43,958 (1) | 5,842 (2) | 14,606 (3) |
| Corporate debt | 51,676 | 609 | 34,454 (4) | 12,023 (5) | 4,590 (6) |
| International bonds | 9,929 | 1,651 | 1,711 | 2,250 | 4,317 |
| Repurchase agreements | 5,823 | - | 5,823 | - | - |
| | <u>196,071</u> | <u>\$ 34,618</u> | <u>\$ 100,943</u> | <u>\$ 36,997</u> | <u>\$ 23,513</u> |
| Other investments: | | | | | |
| Equity securities - domestic | 99,404 | | | | |
| Equity securities - international | 41,661 | | | | |
| Mutual funds | 76,216 | | | | |
| Real estate mutual funds | 6,641 | | | | |
| Real estate held for investment purposes | 932 | | | | |
| Money market funds | 7,186 | | | | |
| Total | <u>\$ 428,111</u> | | | | |

(1) This amount includes \$25,949 of bonds which are callable in less than 5 years.

(2) This amount includes \$9,138 of bonds which are callable in less than 10 years.

(3) This amount includes \$360 of bonds which are callable in less than 13 years and \$918 callable in less than 20 years.

(4) This amount includes \$380 of bonds which are callable in less than 1 year.

(5) This amount includes \$106 of bonds which are callable in less than 6 years.

(6) This amount includes \$1 of bonds which are callable in less than 23 years.

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.

Credit Risk – State statutes authorize the University to invest funds in accordance with the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The University does not follow a more restrictive policy. Credit ratings for these investments that are rated are as follows:

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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. Investment types comprising more than 5% of the University’s portfolio are as follows at June 30:

| | <u>Concentration</u> | |
|---------------------------------------|----------------------|------|
| | 2011 | 2010 |
| Federal National Mortgage Association | 6% | 6% |
| Federal Home Loan Bank | 6% | 8% |
| U.S. Treasuries | 7% | 7% |

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. The University does not have a formal custodial credit risk policy. 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 2011 and 2010, \$6.3 million and \$6.4 million respectively of underlying securities are held by the investment’s counterparty, but not in the name of the University.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have a formal policy to limit foreign currency risk. Primary exposure to foreign currency risk is presented in the following table.

| | <u>Foreign Currency</u> | |
|--------------------|-------------------------|-----------------|
| | 2011 | 2010 |
| Australian Dollar | \$ 1,481 | \$ 1,316 |
| British Pound | 824 | 1,095 |
| Canadian Dollar | 694 | 371 |
| EMU Euro | 3,639 | 3,484 |
| South Korea Won | 553 | 483 |
| Malaysian Ringgit | 607 | 571 |
| Mexican Peso | 527 | 192 |
| New Zealand Dollar | 549 | 449 |
| Norwegian Krone | 676 | 581 |
| Poland Zloty | 878 | 724 |
| South African Rand | 338 | 140 |
| Swedish Krona | - | 523 |
| Totals | <u>\$ 10,766</u> | <u>\$ 9,929</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 \$13,509 and \$10,061 at June 30, 2011 and 2010, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately \$1,406 and \$1,294 at June 30, 2011 and 2010, 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 non-profit 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, and accordingly, equity in joint venture in the accompanying statement of net assets represents its one-half undivided interest based on the separate financial statements of the venture. The University has recorded 50% equity in earnings of NMC for the years ended June 30, 2011 and 2010 totaling \$27,765 and \$27,297, 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. Distributions of \$6 million, shared equally by the venturers, were declared and paid for both 2011 and 2010.

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 lease agreement lists lease rental payments through 2012 with a provision for payments after July 1, 2012, to be determined in the future. The hospital building was recorded at approximately \$132,000 and is included in the University's financial statements at \$13,961 net of depreciation. The payment due under the lease for 2012 is \$1,737.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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, 2011 and 2010, the University received approximately \$24,971 and \$24,700, respectively, of support in connection with the agreement.

F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010 is as follows:

| | 2011 | | | Ending Balance |
|---|----------------------|------------------|---------------------|--------------------|
| | Beginning Balance | Additions | Disposals | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 71,117 | \$ 1,509 | \$ (219) | \$ 72,407 |
| Construction work in progress | <u>250,162</u> | <u>134,409</u> | <u>(228,592)</u> | <u>155,979</u> |
| Total capital assets not being depreciated | <u>321,279</u> | <u>135,918</u> | <u>(228,811)</u> | <u>228,386</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 135,018 | 9,137 | (342) | 143,813 |
| Leasehold improvements | 13,209 | - | - | 13,209 |
| Buildings | 1,644,313 | 211,013 | (21,741) | 1,833,585 |
| Equipment | <u>326,434</u> | <u>31,368</u> | <u>(17,267)</u> | <u>340,535</u> |
| Total capital assets, being depreciated | <u>2,118,974</u> | <u>251,518</u> | <u>(39,350)</u> | <u>2,331,142</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 46,081 | 5,851 | (340) | 51,592 |
| Leasehold improvements | 2,965 | 441 | - | 3,406 |
| Buildings | 443,136 | 53,607 | (20,844) | 475,899 |
| Equipment | <u>211,955</u> | <u>30,947</u> | <u>(15,039)</u> | <u>227,863</u> |
| Total accumulated depreciation other assets | <u>704,137</u> | <u>90,846</u> | <u>(36,223)</u> | <u>758,760</u> |
| Capital assets, net | <u>\$1,736,116</u> | <u>\$296,590</u> | <u>\$ (231,938)</u> | <u>\$1,800,768</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

| | 2010 | | | Ending Balance |
|---|----------------------|------------------|---------------------|--------------------|
| | Beginning Balance | Additions | Disposals | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 60,812 | \$ 10,305 | \$ - | \$ 71,117 |
| Construction work in progress | <u>202,163</u> | <u>225,201</u> | <u>(177,202)</u> | <u>250,162</u> |
| Total capital assets not being depreciated | <u>262,975</u> | <u>235,506</u> | <u>(177,202)</u> | <u>321,279</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 131,121 | 5,668 | (1,771) | 135,018 |
| Leasehold improvements | 13,209 | - | - | 13,209 |
| Buildings | 1,460,965 | 197,241 | (13,893) | 1,644,313 |
| Equipment | <u>309,739</u> | <u>32,281</u> | <u>(15,586)</u> | <u>326,434</u> |
| Total capital assets, being depreciated | <u>1,915,034</u> | <u>235,190</u> | <u>(31,250)</u> | <u>2,118,974</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 41,999 | 5,744 | (1,662) | 46,081 |
| Leasehold improvements | 2,524 | 441 | - | 2,965 |
| Buildings | 409,847 | 45,294 | (12,005) | 443,136 |
| Equipment | <u>196,440</u> | <u>30,245</u> | <u>(14,730)</u> | <u>211,955</u> |
| Total accumulated depreciation other assets | <u>650,810</u> | <u>81,724</u> | <u>(28,397)</u> | <u>704,137</u> |
| Capital assets, net | <u>\$1,527,199</u> | <u>\$388,972</u> | <u>\$ (180,055)</u> | <u>\$1,736,116</u> |

G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|------|----------------------|------------------|--------------------|-------------------|--------------------|
| 2011 | <u>\$ 70,041</u> | <u>\$ 47,280</u> | <u>\$ (46,332)</u> | <u>\$ 70,989</u> | <u>\$ 53,657</u> |
| 2010 | <u>\$ 67,500</u> | <u>\$ 48,186</u> | <u>\$ (45,645)</u> | <u>\$ 70,041</u> | <u>\$ 52,480</u> |

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|------|----------------------|-------------------|--------------------|-------------------|--------------------|
| 2011 | <u>\$ 700,705</u> | <u>\$ 44,430</u> | <u>\$ (60,350)</u> | <u>\$ 684,785</u> | <u>\$ 44,540</u> |
| 2010 | <u>\$ 642,970</u> | <u>\$ 118,470</u> | <u>\$ (60,735)</u> | <u>\$ 700,705</u> | <u>\$ 42,600</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Bond obligations payable at June 30, 2011 and 2010 consist of the following:

| Obligations under the master trust indenture: | Interest Rate | Annual Installment | Principal Amount Outstanding | |
|---|------------------|-----------------------|------------------------------|------------|
| | | | 2011 | 2010 |
| University of Nebraska-Lincoln: | | | | |
| Student fees and facilities: | | | | |
| Series 2002, revenue refunding | 4.50 - 5.00% | \$1,085 - \$2,760 | \$ 8,570 | \$ 9,640 |
| Series 2003A, revenue bonds | 3.92 - 5.25% | 460 - 1,595 | 24,235 | 24,680 |
| Series 2003B, revenue bonds | 3.80 - 5.00% | 1,085 - 3,890 | 62,430 | 64,650 |
| Series 2008A, revenue bonds | 3.25 - 5.00% | 1,250 - 2,360 | 30,255 | 30,255 |
| Series 2009A, revenue bonds | 2.00 - 5.25% | 650 - 2,990 | 52,370 | 52,370 |
| Series 2009B, revenue bonds | 2.00 - 5.70% | 435 - 1,840 | 10,680 | 10,680 |
| Lincoln parking project: | | | | |
| Series 2003, revenue refunding | 3.60 - 4.50% | 630 - 1,615 | 4,285 | 4,895 |
| Series 2005, revenue refunding | 3.75 - 4.50% | 425 - 3,825 | 19,600 | 20,935 |
| Series 2009A&B, revenue bonds | 3.50 - 6.00% | 695-1,110 | 11,560 | 11,560 |
| University of Nebraska at Omaha: | | | | |
| Student center Series 2003: | | | | |
| Revenue refunding bonds | 3.80 - 3.90% | 575 - 1,180 | 1,755 | 2,310 |
| Student HPER Project Series 2008: | | | | |
| Revenue bonds | 2.75 - 5.00% | 870 - 2,700 | 42,075 | 42,920 |
| Student housing Series 2003: | | | | |
| Series 2003, revenue bonds | 3.65 - 5.00% | 365 - 945 | 13,130 | 13,480 |
| Series 2007, revenue bonds | 4.25 - 5.00% | 580 - 2,395 | 28,160 | 28,715 |
| Series 2010A, revenue bonds | 1.25 - 4.83% | 675 - 1,175 | 16,560 | 17,230 |
| Series 2010B, revenue bonds | .90 - 5.00% | 370 - 1,060 | 17,715 | 17,715 |
| University of Nebraska Medical Center: | | | | |
| Student housing revenue bonds | | | | |
| Series 2003 | 3.55 - 5.00% | 130 - 330 | 4,610 | 4,735 |
| University of Nebraska at Kearney: | | | | |
| Student fees and facilities: | | | | |
| Series 2003 revenue refunding bonds | - | - | - | 300 |
| Series 2005 | 3.40 - 4.10% | 345 - 1,080 | 4,235 | 4,570 |
| Series 2006 | 3.60 - 5.00% | 510 - 1,385 | 21,360 | 21,850 |
| Total obligations under the master trust indenture | | | 373,585 | 383,490 |
| Other University obligations: | | | | |
| University of Nebraska-Lincoln: | | | | |
| Athletics: | | | | |
| 2004A, revenue refunding | 4.05 - 5.00% | 1,760 - 3,250 | 33,840 | 35,535 |
| Total University obligations | | | 407,425 | 419,025 |
| Obligations of blended entities: | | | | |
| University of Nebraska Facilities Corporation: | | | | |
| Series 2011 bonds (Eye Institute) | 2.00 - 4.59% | 3,000 - 14,740 | 17,740 | - |
| Series 2011 bonds (NCTA Education Center) | .85 - 5.50% | 85 - 1,645 | 10,885 | - |
| Series 2010 bonds (OPPD Exchange Project) | 1.25 - 3.00% | 1,535 - 1,540 | 9,230 | 9,230 |
| Series 2009 bonds (LB605) | .55 - 4.66% | 3,655 - 7,530 | 48,400 | 52,055 |
| Series 2009 bonds (Health Professions Futures) | 2.25 - 4.20% | 700 - 18,235 | 19,835 | 26,035 |
| Series 2007 bonds (Research Center) | 5.00% | 13,790 | 13,790 | 13,790 |
| Series 2006 bonds (Sorrell Center) | 3.75 - 4.00% | 1,700 - 13,140 | 12,225 | 25,365 |
| Series 2006 bonds (LB605) | 4.00 - 5.00% | 6,910 - 11,550 | 93,700 | 100,610 |
| Series 2004 (library storage project) | 3.60 - 5.00% | 125 - 565 | 2,735 | 2,860 |
| Series 2003 (Alexander building project) | 3.55 - 5.00% | 115 - 205 | 2,045 | 2,160 |
| Series 2002 bonds (Durham Center) | 5.00% | 9,550 - 21,215 | 30,765 | 30,765 |
| Total University of Nebraska Facilities Corporation | | | 261,350 | 262,870 |
| Nebraska Utility Corporation (NUCorp): | | | | |
| Series 2010 revenue bonds | 1.00 - 5.00% | 430 - 1,605 | 15,120 | - |
| Series 2001 revenue bonds | 4.55% | 890 | 890 | 18,810 |
| Total bond obligations payable | | | \$ 684,785 | \$ 700,705 |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Annual maturities subject to mandatory redemption at June 30, 2011, are as follows:

| | Total University | | UNFC | | NUCorp | | Total | |
|-----------|------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 13,900 | \$ 18,653 | \$ 29,750 | \$10,867 | \$ 890 | \$ 833 | \$ 44,540 | \$ 30,353 |
| 2013 | 14,980 | 18,149 | 20,250 | 9,968 | 1,145 | 605 | 36,375 | 28,722 |
| 2014 | 15,505 | 17,584 | 37,320 | 8,883 | 1,220 | 593 | 54,045 | 27,060 |
| 2015 | 15,770 | 17,016 | 43,880 | 7,768 | 1,230 | 577 | 60,880 | 25,361 |
| 2016 | 16,990 | 16,395 | 21,830 | 5,787 | 1,250 | 537 | 40,070 | 22,719 |
| 2017-2021 | 87,845 | 71,014 | 101,620 | 12,420 | 6,725 | 1,716 | 196,190 | 85,150 |
| 2022-2026 | 84,595 | 50,995 | 5,730 | 988 | 3,550 | 179 | 93,875 | 52,162 |
| 2027-2031 | 69,665 | 31,748 | 475 | 215 | - | - | 70,140 | 31,963 |
| 2032-2036 | 54,335 | 16,011 | 495 | 70 | - | - | 54,830 | 16,081 |
| 2037-2041 | 33,840 | 3,244 | - | - | - | - | 33,840 | 3,244 |
| Total | <u>\$407,425</u> | <u>\$260,809</u> | <u>\$261,350</u> | <u>\$56,966</u> | <u>\$16,010</u> | <u>\$ 5,040</u> | <u>\$684,785</u> | <u>\$322,815</u> |

At June 30, 2011 and 2010, the trustees for these bond funds held cash and investments in the amount of approximately \$220,398 and \$275,386, respectively, which is reflected as cash and cash equivalents held by trustee – restricted and investments held by trustee – restricted on the statements of net assets.

Master Trust Indenture – The Board of Regents entered into a master trust indenture dated 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, 2011, 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 and the HPER facility University of Nebraska at Omaha (UNO Student Activities), (d) certain student housing and parking facilities at the University of Nebraska at Omaha (UNO Student Housing and Parking), (e) certain student housing facilities at the University of Nebraska Medical Center (UNMC Student Housing), and (f) the student housing facilities on the University of Nebraska Kearney campus (UNK Student Fees and Facilities) (collectively, the Obligated Group). The accumulated surplus revenues, fees, and other payments of such members of the 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 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.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 remaining 2004A 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

The 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 of Nebraska, but shall be payable solely out of monies derived from designated tuition revenues, legislative appropriations, and UNL and UNMC lease payments.

UNMC Eye Institute Project (“Eye Institute”) – In 2011, the UNFC authorized the issuance of \$17,740 of Series 2011 Bonds, dated June 22, 2011.

The Eye Institute Project consists of the construction of the Eye Institute at the University of Nebraska Medical Center at a cost of approximately \$20,000. Bond proceeds provide interim financing for approximately \$18,000 of donor pledge payments. The remainder of the project will be funded by other University sources.

Principal and interest payments will come from moneys derived by UNFC under the Financing Agreement with the Board of Regents of the University of Nebraska. The Bonds are not redeemable prior to their stated maturities.

NCTA Education Center/Student Housing Project (“Education Center and Housing Facilities Projects”) – In 2011, the UNFC authorized the issuance of \$11,570 of Series 2011 Bonds, dated February 2, 2011.

The Education Center Project comprises the construction of a new Education Center classroom facility, the renovation of an existing Vet Tech Center, and the renovation of a dairy barn into a simulated veterinary clinic. The Housing Facilities Project is for the construction of a new student residence hall.

Principal and interest payments will come from lease payments received from the Nebraska College of Technical Agriculture (NCTA) and certain appropriations made by the Nebraska Legislature. Bonds maturing on or after June 15, 2021 are redeemable at par plus accrued interest.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

UNMC – OPPD Exchange Project (“The Exchange Project”) - In 2010, the UNFC authorized the issuance of \$9,230 of Series 2010 Bonds, dated February 3, 2010.

The Board of Regents and the Omaha Public Power District (OPPD) entered into an exchange agreement on January 24, 2008 that provides for the Board of Regents to acquire certain OPPD property in exchange for specified Board property and improvements to be constructed on it. The Exchange Project was created to construct the improvements to the property of the Board of Regents and facilitate the property exchange with OPPD.

Principal and interest payments will come from lease payments received from UNMC. The Bonds are not redeemable prior to maturity.

Deferred Maintenance Project (“The 2009 Maintenance Project”) – UNFC authorized the issuance of \$52,055 Deferred Maintenance Bonds, Series 2009 Bonds dated December 8, 2009.

The 2009 Maintenance Project represents planned continuation financing of deferred maintenance projects initiated and partially financed by the Series 2006 Bonds – LB 605 Deferred Maintenance Project (2006 Project). The 2006 Project was created to pay the construction costs for major renewal and renovation projects at each of the four University campuses.

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specified tuition revenues. The bonds are not redeemable prior to maturity.

University of Nebraska Medical Center Health Professionals Futures (“The 2009 Project”) – In 2009, the UNFC authorized the issuance of \$26,035 of Series 2009 Bonds dated March 25, 2009.

The 2009 Project is the construction of the College of Public Health building, an addition to the College of Nursing, and a Geriatric Center building on the UNMC campus. The bond proceeds will be used to provide interim financing for approximately \$36 million of donor pledged payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately \$39 million.

UNMC obtained pledges through the University of Nebraska Foundation that, when augmented by other funds UNMC has available, will be sufficient to pay principal and interest on the bonds. The pledges will be received in installments through 2017.

The bonds are not redeemable prior to maturity. The 2009 Project provides that if, at any time, the assigned pledged receipts are insufficient to pay principal and interest of the Series 2009 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.

University of Nebraska Medical Center Research Center Project (“The 2007 Project”) – In 2008, the UNFC authorized the issuance of \$23,630 of Series 2007 Bonds dated December 19, 2007.

The 2007 Project is the construction of the Research Center of Excellence II. The bond proceeds will be used to provide interim financing for approximately \$22 million of donor pledge payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately \$74 million.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

UNMC obtained pledges through the University of Nebraska Foundation that, when augmented by other funds UNMC has available, will be sufficient to pay principal and interest on the bonds. The pledges will be received in installments through 2011.

Bonds maturing on or after February 15, 2018, are redeemable at par plus accrued interest. The 2007 Project provides that if, at any time, the assigned pledged receipts are insufficient to pay principal and interest of the Series 2007 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 2006 Bonds – The Sorrell Center Project – In 2007, the UNFC authorized the issuance of \$29,625 of Series 2006 Bonds dated November 1, 2006.

The Sorrell Center Project is the construction of a multi-level building to house the educational activities of the UNMC College of Medicine.

UNMC has obtained pledges through the University of Nebraska Foundation that, when augmented by other funds UNMC has available, will be sufficient to make lease payments equivalent to principal and interest on the bonds. Bonds maturing after April 15, 2013, are redeemable at par plus accrued interest.

Series 2006 Bonds – LB 605 Deferred Maintenance Project – UNFC authorized the issuance of \$110,970 of Series 2006 Bonds dated August 15, 2006.

The LB 605 Project was created for the purpose of paying the construction costs for major renewal and renovation projects at each of the four University campuses authorized by Nebraska Legislative Bill 605 (LB 605).

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specified tuition revenues. Bonds maturing after July 15, 2017, are redeemable at par plus accrued interest.

Series 2004 Bonds – 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 provides 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. Bonds maturing after July 15, 2014, are redeemable at par plus accrued interest. The 2004 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2004 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 2003 Bonds – Alexander Building Project – In 2003, the UNFC authorized the issuance of \$2,935 of Series 2003 Bonds, dated March 6, 2003.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 lease payments received from UNL. Bonds are redeemable at par plus accrued interest. The 2003 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2003 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 2002 Bonds – Durham Research Center Project – In 2002, the UNFC authorized the issuance of \$56,695 of Series 2002 Bonds, dated February 15, 2002. The Project was created for the purpose of paying a portion of the cost of construction of the Durham Center, which is a ten level medical research and education tower, and a multi-level parking structure on the campus of UNMC at a total estimated cost of \$93,000.

Through the University of Nebraska Foundation, the UNMC obtained pledges approximating \$85,000 for payment of the costs of these projects, of which \$83,130 and \$80,552 in pledge receipts have been received through June 30, 2011 and 2010, respectively. The pledges will be received in installments through 2011. These pledges are augmented with the revenue from the lease agreement with a third party for a portion of the parking structure.

Bonds maturing after February 15, 2012 are redeemable at par plus accrued interest. 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.

Nebraska Utility Corporation

In 2001, the 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.

In 2011, the NUCorp issued Series 2010 Bonds in the amount of \$15,120 with an interest rate of 4.62% to refund \$17,065 of outstanding Series 2001 Bonds with an average interest rate of 5.23%. The net proceeds of \$16,932 (after payment of \$202 in bond issuance expenses) plus \$2,181 of sinking fund monies were used to prepay the outstanding debt service requirements on the 2001 bonds. The proceeds were used to purchase securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 bonds. As a result, a portion of the 2001 bonds are considered to be defeased and the liability for the 2001 bonds has been removed from the statement of net assets. At December 2010, \$17,065 of bonds outstanding are considered defeased.

The cash flow requirements on the 2001 bonds prior to the advance refunding was \$20,528 from 2011 through 2022. The cash flow requirements on the 2010 bonds are \$18,552 from 2011 through 2022. The current refunding resulted in an economic gain of \$1,751. The 2010 bonds maturing on or after January 1, 2022 are redeemable at par plus accrued interest on or after January 1, 2021.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Bond Financing

On September 9, 2009, the Board of Regents issued \$10,680 of Series 2009B Bonds (\$6,140 of revenue and \$4,540 of taxable revenue [Build America Bonds]) (University of Nebraska-Lincoln Student Fees and Facilities). The proceeds will be used to pay the costs of renovations, remodeling, and repairs to the food preparation and dining facilities in the Abel-Sandoz Residence Hall Complex at the University of Nebraska-Lincoln, at a cost of approximately \$10 million.

On November 4, 2009, the Board of Regents issued \$11,560 of Series 2009A Bonds (\$6,405 of revenue and \$5,155 of taxable revenue [Build America Bonds]) (University of Nebraska-Lincoln Parking Project). The proceeds will be used to pay the costs of constructing approximately 1,100 spaces of parking consisting of a multi-level parking garage, together with incidental surface parking, located on the northwest corner of 19th and Vine Streets on the UNL city campus.

On February 24, 2010, the Board of Regents issued \$17,230 of University of Nebraska at Omaha Student Housing Project Revenue Bonds, Series 2010. The proceeds were used to purchase a privately owned student residence facility, University Village, constructed in 1999. The facility consists of 12 three-story buildings each containing 12 four-bedroom apartments and a commons building for student amenities and support services. The cost of the facility was \$16,180.

On May 26, 2010, the Board of Regents issued \$17,715, of University of Nebraska at Omaha Student Housing Project Revenue Bonds, Series 2010B. The proceeds will be used to acquire and construct an approximately 480 bed new student residence facility consisting of four three-story buildings with 30 units in each building. The project is being constructed pursuant to a ground lease/purchase agreement between the Board of Regents and the Suzanne and Walter Scott Foundation (Scott Foundation). The total cost of the Project is approximately \$23.5 million. The Scott Foundation will transfer its interest in the Project to the Board of Regents on August 11, 2011.

Bond Resolutions

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, 2011 and 2010, the University, UNFC, and NUCorp are in compliance with these requirements.

I. CAPITAL LEASE OBLIGATIONS

The University is presently 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 at June 30, 2011 and 2010, \$3,405 and \$3,218, respectively, 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 |
|------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| 2011 | <u>\$ 6,586</u> | <u>\$ 4,983</u> | <u>\$ 6,506</u> | <u>\$ 5,063</u> | <u>\$ 1,621</u> |
| 2010 | <u>\$ 9,359</u> | <u>\$ 5,770</u> | <u>\$ 8,543</u> | <u>\$ 6,586</u> | <u>\$ 2,461</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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

| | Land | Buildings and Properties | Equipment | Total |
|-----------------------------------|---------------|--------------------------------|---------------|-----------------|
| 2012 | \$ 246 | \$ 1,003 | \$ 499 | \$ 1,748 |
| 2013 | 246 | 322 | 191 | 759 |
| 2014 | 245 | 322 | 187 | 754 |
| 2015 | 245 | 322 | 50 | 617 |
| 2016 | - | 309 | 47 | 356 |
| 2017-2021 | - | 850 | - | 850 |
| 2022-2026 | - | 850 | - | 850 |
| 2027-2031 | - | 154 | - | 154 |
| | <u>982</u> | <u>4,132</u> | <u>974</u> | <u>6,088</u> |
| Less interest and executory costs | <u>89</u> | <u>872</u> | <u>64</u> | <u>1,025</u> |
| | <u>\$ 893</u> | <u>\$ 3,260</u> | <u>\$ 910</u> | <u>\$ 5,063</u> |

Capital assets held under capital lease obligations at June 30, 2011, are as follows:

| | Cost | Accumulated Depreciation | Net |
|-----------|------------------|-----------------------------|------------------|
| Land | \$ 5,443 | \$ - | \$ 5,443 |
| Buildings | 9,007 | 1,832 | 7,175 |
| Equipment | <u>2,018</u> | <u>1,051</u> | <u>967</u> |
| | <u>\$ 16,468</u> | <u>\$ 2,883</u> | <u>\$ 13,585</u> |

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, July 1, 2009 | \$ 3,488 | \$ 1,797 | \$ 5,302 | \$ 10,587 |
| Incurred claims | 1,993 | 682 | 108,884 | 111,559 |
| Payments on claims | <u>(598)</u> | <u>(974)</u> | <u>(109,056)</u> | <u>(110,628)</u> |
| Claim reserve, June 30, 2010 | 4,883 | 1,505 | 5,130 | 11,518 |
| Incurred claims | 892 | 1,832 | 121,959 | 124,683 |
| Payments on claims | <u>(869)</u> | <u>(1,880)</u> | <u>(119,291)</u> | <u>(122,040)</u> |
| Claim reserve, June 30, 2011 | <u>\$ 4,906</u> | <u>\$ 1,457</u> | <u>\$ 7,798</u> | <u>\$ 14,161</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 \$1,000 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 rate 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 as well as 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.

At June 30, 2011 and 2010, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$128,377 and \$116,892, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents and investments on the statements of net assets.

K. RETIREMENT PLANS

The University sponsors a defined contribution retirement plan 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 6.5% and 8.0% 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 2011 and 2010 was approximately \$833,364 and \$812,017, respectively, of which approximately \$639,114 and \$623,789 was covered by the plan. The University's contribution during 2011 and 2010 was approximately \$49,884, or 7.81%, and \$48,696, or 7.81%, of covered payroll, respectively, and the faculty and staff's contribution was approximately \$33,524, or 5.25%, and \$32,741, or 5.25%, of covered payroll, respectively.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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.

UNMC Physicians 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 UNMC Physicians contributions based upon a fixed percentage of the employees' salary. Total pension expense was \$10,620 and \$10,444 for the years ended June 30, 2011 and 2010, respectively.

The GASB issued Statement No. 47, *Accounting for Termination Benefits*. Statement No. 47 requires a disclosure of the termination benefit liability incurred during the year for retirement plans. The University offered a tenure buyout option to faculty under a 1997 plan and a 2003 plan both of which are now closed. Both plans offered a buyout to faculty in exchange for tenured rights and included a provision for the University to pay health insurance premiums for the faculty member for a specified term. Currently, the administration may agree to a tenure buyout arrangement with a selected faculty member, but the buyout option is not generally open to the faculty. The expense incurred during 2011 and 2010 for the health insurance liability under current individual tenure buyout arrangements was \$712 and \$92, respectively. The expense incurred for 2011 and 2010 health insurance premium increases under all tenure buyout arrangements was \$57 and \$24, respectively. The total termination benefit obligation at June 30, 2011 and 2010 was \$1,166 and \$911, respectively.

L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of facilities that are estimated to cost approximately \$637,151. As of June 30, 2011, the approximate remaining costs to complete these facilities were \$316,414, which will be financed as follows:

| | |
|--------------------------------------|-------------------|
| Bond funds | \$ 164,651 |
| Federal funds | 20,711 |
| University funds | 29,385 |
| State capital appropriations | 2,358 |
| Private gifts, grants, and contracts | <u>99,309</u> |
| | <u>\$ 316,414</u> |

During the normal course of business, the University receives funds from the U.S. 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 OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

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 at the site 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 was entered into between the Board of Regents and an engineering and consulting firm to perform the remedial investigation/feasibility study. This study was completed and the consulting firm made recommendations to the University for the removal and disposal of the contaminants at the site. The Board of Regents and the EPA subsequently agreed to an action for the remediation and restoration of the area. The recommended action plan has been completed pending acceptance of the final remedial investigation feasibility study report filed with the EPA. In 2011, the University received a proposed plan from the EPA for additional remedial activities, which include an installation of a landfill cap, an establishment of a monitoring well network, and treatment for a groundwater contaminant. Final plans to address the EPA's proposal have not been made or a contractor selected to perform the work. A liability has not been recorded since the cost remains an indeterminate amount.

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 Nebraska Medical Center (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, 2011 and 2010, NMC purchased approximately \$58,958 and \$53,006 of goods and services from the University.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2011:

| | Compen- sation | Supplies and Materials | Contractual Services | Repairs and Maintenance | Utilities | Communi- cations | Scholarships and Fellowships | Deprecia- tion | Total |
|---------------------------------------|--------------------|------------------------------|-------------------------|-------------------------------|------------------|---------------------|------------------------------------|-------------------|---------------------|
| Instruction | \$ 400,379 | \$ 31,150 | \$ 11,806 | \$ 2,109 | \$ 8 | \$ 2,735 | \$ 3,281 | \$ - | \$ 451,468 |
| Research | 179,348 | 70,919 | 43,387 | 7,773 | 113 | 1,233 | 1,128 | - | 303,901 |
| Public service | 67,804 | 14,768 | 14,083 | 511 | 363 | 1,091 | 186 | - | 98,806 |
| Academic support | 89,894 | 25,422 | (599) | 709 | 26 | 1,346 | 191 | - | 116,989 |
| Student services | 20,368 | 5,083 | 1,175 | 356 | 2 | 330 | 425 | - | 27,739 |
| Institutional support | 70,201 | 21,790 | 6,074 | 1,124 | 66 | 1,328 | 40 | - | 100,623 |
| Operation and maintenance of plant | 34,020 | 5,566 | 3,645 | 32,565 | 33,326 | 325 | 33 | - | 109,480 |
| Healthcare entities | 155,629 | 11,787 | 27,077 | 2,393 | 267 | 706 | 849 | - | 198,708 |
| Scholarships and fellowships | 2,532 | 334 | 2,807 | - | - | - | 61,594 | - | 67,267 |
| Auxiliary operations | 84,701 | 99,737 | 18,327 | 9,828 | 2,683 | 4,331 | 2,108 | - | 221,715 |
| Depreciation | - | - | - | - | - | - | - | 90,846 | 90,846 |
| Total expenses | <u>\$1,104,876</u> | <u>\$ 286,556</u> | <u>\$ 127,782</u> | <u>\$ 57,368</u> | <u>\$ 36,854</u> | <u>\$13,425</u> | <u>\$ 69,835</u> | <u>\$ 90,846</u> | <u>\$ 1,787,542</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

For the year ended June 30, 2010:

| | Compen- sation | Supplies and Materials | Contractual Services | Repairs and Maintenance | Utilities | Communi- cations | Scholarships and Fellowships | Deprecia- tion | Total |
|---------------------------------------|--------------------|------------------------------|-------------------------|-------------------------------|------------------|---------------------|------------------------------------|-------------------|---------------------|
| Instruction | \$ 382,890 | \$ 30,870 | \$ 9,825 | \$ 1,502 | \$ 17 | \$ 2,796 | \$ 2,945 | \$ - | \$ 430,845 |
| Research | 171,650 | 41,928 | 39,980 | 7,388 | 100 | 1,269 | 954 | - | 263,269 |
| Public service | 65,084 | 13,207 | 12,744 | 22,056 | 355 | 887 | 259 | - | 114,592 |
| Academic support | 79,853 | 23,697 | (1,687) | 129 | 17 | 1,326 | 80 | - | 103,415 |
| Student services | 18,195 | 4,617 | (448) | 809 | 22 | 350 | 468 | - | 24,013 |
| Institutional support | 68,396 | 17,004 | 1,364 | 1,221 | 66 | 1,689 | 151 | - | 89,891 |
| Operation and maintenance of plant | 32,553 | 2,442 | 3,654 | 32,800 | 33,599 | 291 | 32 | - | 105,371 |
| Healthcare entities | 140,123 | 11,486 | 27,588 | 2,292 | 336 | 763 | 954 | - | 183,542 |
| Scholarships and fellowships | 2,424 | 1,084 | 2,601 | - | - | - | 50,421 | - | 56,530 |
| Auxiliary operations | 82,671 | 85,565 | 17,476 | 7,853 | 2,645 | 4,284 | 2,438 | - | 202,932 |
| Depreciation | - | - | - | - | - | - | - | 81,724 | 81,724 |
| Total expenses | <u>\$1,043,839</u> | <u>\$ 231,900</u> | <u>\$ 113,097</u> | <u>\$ 76,050</u> | <u>\$ 37,157</u> | <u>\$13,655</u> | <u>\$ 58,702</u> | <u>\$ 81,724</u> | <u>\$ 1,656,124</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

O. AUXILIARY SEGMENT

The University issues revenue bonds to finance certain of its auxiliary activities under its Master Trust Indenture. Investors in these bonds rely on the revenue generated by the individual activities and other sources specified for repayment. Descriptive segment information for the Master Trust Indenture Obligated Group – includes the following:

UNL Student Fees and Facilities Bonds, Series 2002, Series 2003A, Series 2003B, Series 2008A, Series 2009A, and Series 2009B – 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 2003, Series 2005, and Series 2009A and B – These bonds are used to provide parking-related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consist of parking fee revenues.

UNO Student Activities Project Bonds, Series 2003 and Series 2008 – These bonds are used to provide a variety of services for the benefit of the University and its students in the Student Center and to provide health, physical education, and recreation services in the HPER building.

UNO Student Housing/Parking Project Bonds, Series 2003, Series 2007, and Series 2010A and B – The bonds are used to provide student housing, parking, and related facilities as allowed by the covenants for the University. Operating revenues consist primarily of rentals, student fees, and parking fees.

UNMC Student Housing Project Bonds, 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, Series 2005 and Series 2006 – 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.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Condensed financial information for the University's segment follows (in thousands):

| | June 30, | |
|--|----------------------|-------------------|
| | 2011 | 2010 |
| Condensed Statements of Net Assets | | |
| Assets: | | |
| Current assets | \$ 56,406 | \$ 51,994 |
| Non-current assets: | | |
| Capital assets | 395,955 | 377,851 |
| Other non-current assets | 69,406 | 112,596 |
| Total assets | <u>521,767</u> | <u>542,441</u> |
| Liabilities: | | |
| Current liabilities | 28,861 | 48,337 |
| Non-current liabilities | 365,861 | 378,296 |
| Total liabilities | <u>394,722</u> | <u>426,633</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 24,069 | 13,972 |
| Restricted: | | |
| Expendable: | | |
| Plant construction | 8,330 | 13,487 |
| Debt service | 78,960 | 74,645 |
| Unrestricted | <u>15,686</u> | <u>13,704</u> |
| Total net assets | <u>\$ 127,045</u> | <u>\$ 115,808</u> |
| | | |
| | Years Ended June 30, | |
| | 2011 | 2010 |
| Condensed Statements of Revenues, Expenses, and Changes in Net Assets | | |
| Operating revenues | \$ 107,194 | \$ 93,997 |
| Operating expenses: | | |
| Depreciation | (13,006) | (8,684) |
| Other operating expenses | <u>(70,675)</u> | <u>(67,934)</u> |
| Operating income | 23,513 | 17,379 |
| Non-operating expense | <u>(12,276)</u> | <u>(7,081)</u> |
| Change in net assets | 11,237 | 10,298 |
| Net assets, beginning of year | <u>115,808</u> | <u>105,510</u> |
| Net assets, end of year | <u>\$ 127,045</u> | <u>\$ 115,808</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

| | Years Ended June 30, | |
|--|----------------------|------------|
| | 2011 | 2010 |
| Condensed Statements of Cash Flows | | |
| Net cash flows from operating activities | \$ 36,345 | \$ 28,746 |
| Net cash flows from capital and related financing activities | (74,803) | (44,934) |
| Net cash flows from investing activities | (7,205) | 10,195 |
| Net change in cash and cash equivalents | (45,663) | (5,993) |
| Cash and cash equivalents, beginning of year | 131,728 | 137,721 |
| Cash and cash equivalents, end of year | \$ 86,065 | \$ 131,728 |

P. SUBSEQUENT EVENTS

On November 16, 2011, the Board of Regents issued \$63,475 of University of Nebraska-Lincoln Student Fees and Facilities Revenue Bonds, Series 2011. The proceeds will be used to pay the cost of construction of the new 18th & R Residence Halls (Cather/Pound Replacement Project). The Board also approved the expenditure of \$13,508 from Surplus Funds to augment a total project cost of approximately \$79,000.

The Board of Regents approved the issuance of not to exceed \$23,500 of University of Nebraska-Lincoln Student Recreation Facilities Revenue Bonds. The proceeds will be used to construct three projects comprised of (1) renovation of an existing recreation facility, (2) the construction of a new outdoor adventures center, and (3) the renovation of the Sapp Recreation facility. As of December 16, 2011, the bonds had not yet been issued.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 16, 2011, the date at which the financial statements were available to be issued.

Q. UNIVERSITY OF NEBRASKA FOUNDATION

The Foundation is a separate, non-profit 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.

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 are primarily 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, 2011 and 2010, the Foundation's net assets (including unrealized gains) totaled \$1,427,633, and \$1,217,720 as of June 30, 2011 and 2010, respectively.

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

During the years ended June 30, 2011 and 2010, the Foundation contributed \$71 million and \$60 million, respectively, to the University for academic support, student assistance, faculty assistance, research, museums, and libraries. In addition, the Foundation provided capital gifts of \$58 million and \$46 million during 2011 and 2010, respectively, to the University. These contributions provided support for several projects, including the construction of the UNMC Health Professions Project and several UNL Athletics Capital Projects.

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

R. COMPONENT UNIT DISCLOSURES

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

(1) Summary of Significant Accounting Policies

(a) Nature of the Entity and Principles of Consolidation

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

(b) Basis of Accounting and Presentation

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and any other assets or liabilities are reported as increases

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

in unrestricted net assets unless their use is limited by donor stipulation or by laws. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

(c) Prior Year Information

The consolidated financial statements include certain prior year information that has been summarized in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

(d) Cash and Cash Equivalents

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

The Foundation maintains cash balances and certificates of deposit at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250. 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.

(e) Contributions

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

(f) Investments and Temporary Investments

Most investments and temporary investments are reported at fair value. Investments in securities traded on a national securities exchange are valued at the latest quoted market prices. Investments in closely held stock and real estate are estimated based on independent appraisals and information provided by the respective companies. For debt securities, if quoted market prices are not

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

available, the fair values are estimated using pricing models, quoted prices of similar securities with similar characteristics, or discounted cash flows. For alternative investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and similar funds, the Foundation estimates fair value using net asset value per share or its equivalent as a practical expedient to estimated fair value.

Real estate held for others and the cash surrender value of insurance policies are recorded at amortized cost. They are reviewed for impairment on an annual basis.

Temporary investments comprise shorter-term investments used to maintain liquidity, mainly fixed income securities either explicitly or implicitly backed by the U.S. government and money market funds. Investments comprise a mix of equities, fixed income, and alternative investments, which have a longer-term focus for purposes of inventory for the environment (note 8).

Donated investments are reported at estimated fair value at the date of receipt. Realized gains and losses on sales of investments are recognized in the consolidated statements of activities as specific investments are sold. Interest income is recognized as earned. Dividend income is recognized on the ex-dividend date. All realized and unrealized gains and losses and income arising from investments are recognized in the consolidated statements of activities as increases or decreases to unrestricted net assets unless their use is restricted by donor stipulation or law.

(g) Property and Equipment

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

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

(h) Deposits Held for Others

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

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(i) Fair Value of Financial Instruments

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

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

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, other receivables, accounts payable and accrued liabilities, University of Nebraska benefits payable, scholarships, research, fellowships and professorships payable, and deferred revenue approximate fair value due to their short-term nature. Investments, temporary investments, and deposits held in custody for others are stated at fair value. The carrying value of deferred annuities payable and pledges receivable approximates fair value since the inherent interest rates closely reflect current market rates.

(j) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2011 and 2010, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

(k) Use of Estimates

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

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(2) Fair Value Measurements

The Foundation utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The table below presents the balances of assets measured at June 30, 2011 at fair value on a recurring basis.

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|---------------------|-------------------|-------------------|------------------|
| Investments: | | | | |
| Certificates of deposit, savings, and money funds | \$ 13,911 | \$ - | \$ 13,911 | \$ - |
| U.S. government securities and sovereign debt | 7,113 | - | 7,113 | - |
| State government securities | 1,424 | - | 1,424 | - |
| Local government securities | 1,310 | - | 1,310 | - |
| International bonds | 34,025 | - | 34,025 | - |
| Corporate bonds | 13,320 | 13,320 | - | - |
| Common stock | 390,692 | 390,692 | - | - |
| Mutual funds — Equity | 72,679 | 72,679 | - | - |
| Mutual funds — Fixed income | 148,807 | 148,807 | - | - |
| Real estate | 5,770 | - | - | 5,770 |
| Limited partnerships | 550,121 | - | 535,521 | 14,600 |
| Preferred stock | 187 | - | 187 | - |
| Temporary investments: | | | | |
| U.S. Treasuries | 281,191 | 281,191 | - | - |
| Certificates of deposit | 4,900 | - | 4,900 | - |
| Total | <u>\$ 1,525,450</u> | <u>\$ 906,689</u> | <u>\$ 598,391</u> | <u>\$ 20,370</u> |

Certain investments in limited partnerships classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

estimate the fair value of the Foundation's interest therein, its classification in Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the date of the consolidated statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

| | |
|--|------------------|
| Balance, July 1, 2010 | \$ 183,970 |
| Transfers and reclassifications | (160,560) |
| Net realized gains | (116) |
| Net unrealized gains | 2,117 |
| Interest, dividends, and other income/losses | 334 |
| Investment management fees | (690) |
| Purchases | 1,421 |
| Distributions | (6,106) |
| Balance, June 30, 2011 | <u>\$ 20,370</u> |

(3) Investments

Investments consist of the following at June 30, 2011:

| | <u>Book value</u> | <u>Unrealized gain (loss)</u> | <u>Fair value</u> |
|--|-----------------------|-----------------------------------|-----------------------|
| Investments stated at fair value or estimated fair value: | | | |
| Certificates of deposit, savings, and money funds | \$ 13,911 | \$ - | \$ 13,911 |
| U.S. government securities and sovereign debt | 6,590 | 523 | 7,113 |
| State government securities | 1,383 | 41 | 1,424 |
| Local government securities | 1,279 | 32 | 1,311 |
| International bonds | 32,951 | 1,074 | 34,025 |
| Corporate bonds | 12,492 | 828 | 13,320 |
| Common stock | 283,718 | 106,974 | 390,692 |
| Mutual funds — Equity | 79,019 | (6,340) | 72,679 |
| Mutual funds — Fixed income | 142,605 | 6,202 | 148,807 |
| Real estate | 7,518 | (1,748) | 5,770 |
| Limited partnerships | 516,576 | 33,545 | 550,121 |
| Preferred stock | 164 | 23 | 187 |
| | <u>\$ 1,098,206</u> | <u>\$ 141,154</u> | <u>\$ 1,239,360</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

Investments stated at other than fair value:

| | | |
|------------------------------------|----|---------------|
| Real estate | \$ | 47,516 |
| Real estate mortgage and contracts | | 4,508 |
| Other | | 4,154 |
| Cash value of life insurance | | 4,699 |
| Annuity contracts | | 208 |
| | | <u>61,085</u> |
| | \$ | <u>61,085</u> |

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

| | Fair value | Unfunded commitments | * Redemption frequency (if currently eligible) | Redemption notice period |
|--------------------------------|-------------------|---------------------------------|---|---|
| Domestic equities | \$ 171,987 | \$ - | m/q | 1 – 90 days |
| International equities | 183,104 | - | m/q | 1 – 90 days |
| Commodities | 14,356 | - | m/q | 1 – 90 days |
| Fixed income | 76,643 | - | m/q | 1 – 90 days |
| Private equity/venture capital | 12,261 | 1,219 | N/A | N/A |
| Real estate funds | 11,107 | 6,020 | N/A | N/A |
| Hedge funds: | | | | |
| Domestic long/short | 13,360 | - | q/sa/a | 90 – 360 days |
| Global long/short | 18,788 | - | q/sa/a | 90 – 360 days |
| Multiple strategies | 32,398 | - | q/sa/a | 90 – 360 days |
| Credit strategies | 16,117 | - | q/sa/a | 90 – 360 days |
| | <u>\$ 550,121</u> | <u>\$ 7,239</u> | | |

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

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

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(4) Pledges Receivable

Pledges receivable are recorded on the consolidated statement of financial position as assets net of an allowance for uncollectible accounts and discounted to their present value. Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected as follows as of June 30, 2011:

| | |
|--------------------------------------|--------------------------|
| Gross amount due in: | |
| One year or less | \$ 49,634 |
| One to five years | 105,166 |
| More than five years | <u>21,062</u> |
| | 175,862 |
| Less discount to present value | <u>20,070</u> |
| | 155,792 |
| Less allowance for doubtful accounts | <u>4,674</u> |
| | <u><u>\$ 151,118</u></u> |

The discount will be recognized as contribution income in years 2012 through 2039.

In addition, the Foundation has been informed of intentions to give in the form of possible future bequests, currently of indeterminable value, that have not been reflected in the accompanying consolidated financial statements because they are not unconditional promises.

(5) Property and Equipment

Property and equipment at June 30, 2011 are as follows:

| | |
|------------------------------------|------------------------|
| Property | \$ 1,651 |
| Leasehold improvements | 3,157 |
| Aircraft | 4,177 |
| Automobiles | 290 |
| Furniture, equipment, and software | <u>6,922</u> |
| | 16,197 |
| Less accumulated depreciation | <u>9,367</u> |
| Net property and equipment | <u><u>\$ 6,830</u></u> |

(6) Split-Interest Agreements

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

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(7) Net Assets

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

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

| | | |
|--|----|------------------|
| Temporarily restricted – charitable trusts and annuities | \$ | 31,201 |
| Temporarily restricted – available for specific purposes | | 677,973 |
| Permanently restricted – endowment | | 704,127 |
| | \$ | <u>1,413,301</u> |

Net assets of \$136,989 were released from donor restrictions during 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(8) Endowments

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

The Foundation's endowment consists of approximately 4,400 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by generally accepted accounting principles, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted NUPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Interest, dividends, and net appreciation of the donor-restricted endowment funds are classified according to donor stipulations, if any. Absent any donor-imposed restrictions, interest, dividends, and net

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

appreciation of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Foundation in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the endowment fund
- (2) the purposes of the Foundation and the donor-restricted endowment fund
- (3) general economic conditions
- (4) the possible effect of inflation or deflation
- (5) the expected total return from income and the appreciation of investments
- (6) other resources of the Foundation
- (7) the investment policy of the Foundation

Endowment net asset composition by type of fund as of June 30, 2011 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total net endowment assets</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|-----------------------------------|
| Donor-restricted endowment funds | \$ (17,449) | \$ 234,100 | \$ 704,127 | \$ 920,778 |

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

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total net endowment assets</u> |
|---|---------------------|-------------------------------|-------------------------------|-----------------------------------|
| Endowment net assets, beginning of year | \$ (49,526) | \$ 184,867 | \$ 636,241 | \$ 771,582 |
| Contributions | - | 1,601 | 67,886 | 69,487 |
| Investment income, net of expenses | - | 6,501 | - | 6,501 |
| Net appreciation | 32,077 | 82,744 | - | 114,821 |
| Amounts appropriated for expenditure | - | (41,613) | - | (41,613) |
| Endowment net assets, end of year | <u>\$ (17,449)</u> | <u>\$ 234,100</u> | <u>\$ 704,127</u> | <u>\$ 920,778</u> |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(a) Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities, and illiquid alternative investments that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to earn a real (inflation-adjusted) rate of return of at least 5.5% per year net of investment management fees and transaction costs, when measured over rolling five-year period. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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

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

(9) Lease Commitments

The Foundation entered into an amended lease agreement for rental of office space on the second and third floors in Lincoln, beginning September 1, 2007 and extending through August 31, 2017. The annual rental is \$577 through calendar year 2012, with a possible increase based on changes in the consumer price index for the period from January 1, 2013 through August 31, 2017. The Foundation had also entered into a contract for rental of office space in Omaha for 15 years beginning on November 1, 2008 with increases every 60 months. The annual rental is \$388 for the first 5 years and \$419 for the next 5 years. The Foundation entered into an amended lease agreement for office space in Kearney for the period from November 1, 2008 to October 31, 2014 at a rental rate of \$3 per month with an increase to \$4 effective November 1, 2011. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2011 are as follows:

| | | |
|---------------|----|-------|
| June 30, 2012 | \$ | 1,008 |
| June 30, 2013 | | 1,008 |
| June 30, 2014 | | 1,029 |
| June 30, 2015 | | 1,010 |
| June 30, 2016 | | 996 |

THE UNIVERSITY OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 and 2010 (Thousands)

(10) Retirement Plan

The Foundation sponsors a retirement plan that covers employees of the Foundation and Tech Park with one year of service who work in excess of 1,000 hours annually and have attained the age of 21 years or previous participation in the TIAA-CREF or Fidelity annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Code Section 403b(1) of the Internal Revenue Code using annuities under TIAA-CREF and Fidelity Investments. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of their salary to the plan and the Foundation matches the amount with either 8.0% or 6.5% of salary, respectively. The Foundation and Tech Park contributions to the plans for the year ended June 30, 2011 were \$720,432.

(11) Contingencies and Commitments

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

(12) Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 27, 2011, the date the consolidated financial statements were available to be issued.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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
Lincoln, Nebraska

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 16, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technological Development Corporation, the University Dental Associates, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, as described in our report on the University's financial statements. The financial statements of the Foundation, the Blended Component Units, and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting as described in our separately issued management letter that we consider to be significant deficiencies in internal control over financial reporting: Comment Number 1 (SAP Payables Access), Comment Number 2 (Lack of Audit Cooperation), Comment Number 3 (Impeded Access to Information), Comment Number 4 (SACR Security Turned Off), and Comment Number 5 (Inappropriate Access to Change Passwords). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 also noted certain matters that we reported to management of the University in a separate letter dated December 16, 2011.

The University's responses to the findings identified in our audit are described in our separately issued management letter. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Regents of the University of Nebraska, others within the entity, the Nebraska Legislature, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Lincoln, Nebraska
December 16, 2011

Don Dunlap, CPA
Assistant Deputy Auditor