

# *The University of Nebraska*

*Basic Financial Statements and Additional Information  
for the Years Ended June 30, 2012 and 2011  
and Independent Auditors' Reports*

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**Issued on December 17, 2012**

# THE UNIVERSITY OF NEBRASKA

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# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## 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, 2012 and 2011, 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, 74 percent, 5 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2011, 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 14, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 4 through 16, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska  
December 14, 2012

Mark Avery, CPA  
Audit Manager



**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, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

**KPMG LLP**

September 28, 2012

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, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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### 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, 2012 and 2011. 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, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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### Student Enrollment – Headcount

Campus	Fall Semester of Fiscal Year				
	2008	2009	2010	2011	2012
UNL	22,973	23,573	24,100	24,610	24,593
UNMC	3,128	3,194	3,237	3,493	3,626
UNO	14,156	14,213	14,620	14,665	14,712
UNK	6,478	6,543	6,650	6,753	7,100
Total	46,735	47,523	48,607	49,521	50,031

The fall semester (fiscal 2012) headcount enrollment was 50,031 students on the four campuses. This represents an increase of approximately 500 compared to the fall 2010 (fiscal 2011), a 1% increase for the year. The largest percent change within the underlying demographics is an increase in undergraduate students at UNK (up 5%), while graduate/professional students increased by approximately 1%. 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 12,267, representing 25% of the student body, an important part of 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 6% and 10%, respectively, and are attributable to several factors. First, the University's investment in the Nebraska Medical Center joint venture increased by \$7 million and is included in unrestricted net assets. Second, the trustee insurance balances increased approximately \$17 million reflecting favorable performance for the general liability and property self-insurance and the employee group health insurance programs. Third, the University's cash reserves increased by \$5 million. This stems from the University's effort to reduce 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 Community Engagement Center and the Biomechanics Research facility. Construction of the Nanoscience Center, the Animal Science Complex, and the Nebraska College of Technical Agriculture Education Center and residence hall projects were completed at UNL. An upgrade to the central utilities plant and the Scott Student Plaza and Hope Tower was completed at UNMC while construction began on the Truhlsen Eye Institute and the Eppley Cancer Institute at the campus. At UNK, renovation of the Nebraskan Student Union was finished. Construction and renovation work continues at all of the campuses on several deferred maintenance projects financed by the UNFC Series 2009 Bonds.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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- **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 University issued two new financings during fiscal 2012 under the Master Trust Indenture (MTI). Both financings were made by the UNL Student Fees and Facilities obligated member of the MTI. The first issuance of \$63,475 financed the construction of two new suite-style residence halls on the UNL campus. The proceeds from second issuance of \$80,180 were used to defease the outstanding bonds of the UNL Student Fees and Facilities Bonds, Series 2002, Series 2003A and Series 2003B.

The University of Nebraska Facilities Corporation called the remaining outstanding Research Tower of Excellence Series 2002 Bonds on February 15, 2012, of \$21,215 at par plus accrued interest.

- **State appropriations.** State non-capital appropriations decreased by 1% in 2012 compared to 2011. The 2012 decrease followed decreases of 1.5%, and 1% in 2011 and 2010, respectively. The Board of Regents approved a tuition increase of 5% for 2012. This increase permitted the Board of Regents to approve a budget to meet salary increases negotiated under certain union contracts and operating expenses and to provide a 2.5% increase in the salary pool for faculty and staff outside the collective bargaining units. 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 5% tuition increase compares to a 6% increase in 2011 and 4% for 2010.
- **Federal Grants and Contracts.** Revenues from Federal grants and contracts decreased by 1.5% in 2012 but which followed healthy increases of 12% and 16% in 2011 and 2010, respectively. Support from Federal grants and contracts remained strong at \$243 million in 2012 compared to \$247 million in 2011 and \$221 million in 2010. 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 \$61 million in 2012 compared to \$68 million in 2011, and \$89 million in 2010. Even though capital gifts declined in 2012 and 2011 compared to 2010, the University realized several larger gifts in 2012 to fund capital projects. The largest of the gifts in 2012 was \$35 million from the University of Nebraska Foundation for the UNL Devaney Center, East Stadium, and the Haymarket Park Indoor Practice facility, and at UNO \$6.4 million for the Scott Court residence hall.

### Using the Financial Statements

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

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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**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 \$282 million, quasi-endowments of \$40 million, and net assets of the healthcare blended entities of \$68 million, and net assets of the self insurance programs of \$132 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.

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

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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,		
	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 1,065,591	\$ 1,027,997	\$ 878,216
Capital assets, net of accumulated depreciation	1,855,873	1,800,768	1,736,116
Other non-current assets	761,194	724,906	724,046
Total assets	<u>3,682,658</u>	<u>3,553,671</u>	<u>3,338,378</u>
<b>Liabilities and Net Assets</b>			
Current liabilities	322,497	350,158	337,994
Non-current liabilities	687,794	674,641	692,872
Total liabilities	<u>1,010,291</u>	<u>1,024,799</u>	<u>1,030,866</u>
Net assets:			
Invested in capital assets, net of related debt	1,066,258	1,044,719	955,142
Restricted for:			
Nonexpendable:			
Permanent endowment	190,492	205,105	169,722
Expendable:			
Externally restricted funds	148,726	140,250	127,938
Loan funds	44,507	44,223	43,935
Plant construction	159,400	107,087	125,575
Debt service	161,384	168,315	175,655
Unrestricted	901,600	819,173	709,545
Total net assets	<u>\$ 2,672,367</u>	<u>\$ 2,528,872</u>	<u>\$ 2,307,512</u>

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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

	Year Ended June 30,		
	2012	2011	2010
Operating Revenues:			
Tuition and fees	\$ 321,279	\$ 291,855	\$ 258,559
Federal grants and contracts - restricted	242,907	246,802	221,133
State grants and contracts - restricted	32,228	33,644	33,650
Private grants and contracts - restricted	91,077	98,435	103,581
Sales and services of educational activities	88,046	103,977	73,609
Sales and services of health care entities	217,799	218,546	204,221
Sales and services of auxiliary operations	145,578	143,089	133,391
Sales and services of auxiliary segments	99,801	94,758	83,173
Other operating revenues	12,755	11,488	9,782
Total operating revenues	<u>1,251,470</u>	<u>1,242,594</u>	<u>1,121,099</u>
Operating Expenses:			
Salaries and wages	886,353	871,672	829,013
Benefits	239,685	233,204	214,826
Total compensation and benefits	<u>1,126,038</u>	<u>1,104,876</u>	<u>1,043,839</u>
Supplies and materials	260,014	286,556	231,900
Contractual services	123,414	127,782	113,097
Repairs and maintenance	61,883	57,368	76,050
Utilities	34,984	36,854	37,157
Communications	14,377	13,425	13,655
Depreciation	104,088	90,846	81,724
Scholarships and fellowships	67,820	69,835	58,702
Total operating expenses	<u>1,792,618</u>	<u>1,787,542</u>	<u>1,656,124</u>
Operating Loss	<u>(541,148)</u>	<u>(544,948)</u>	<u>(535,025)</u>
Non-operating Revenues (Expenses):			
State of Nebraska noncapital appropriations	486,155	489,774	496,963
Federal grants	42,851	43,784	35,746
Gifts	75,688	74,083	63,756
Investment income	29,789	38,783	18,396
Increase (decrease) in fair value of investments	(16,518)	42,303	33,452
Interest on bond obligations	(25,017)	(25,495)	(19,368)
Equity in earnings of joint venture	12,838	27,765	27,297
Loss on disposal of capital assets	(3,684)	(12,053)	(2,479)
Net non-operating revenues	<u>602,102</u>	<u>678,944</u>	<u>653,763</u>
Income before Other Revenues, Expenses, Gains or Losses	60,954	133,996	118,738
Other Revenues, Expenses, Gains or Losses:			
Capital grants and gifts	61,288	68,153	89,379
State of Nebraska capital appropriations	20,553	18,740	18,412
Private gifts and bequests for permanent endowments	700	471	341
Net other revenues, expenses, and gains or losses	<u>82,541</u>	<u>87,364</u>	<u>108,132</u>
Increase in net assets	143,495	221,360	226,870
Net Assets:			
Net assets, beginning of year	<u>2,528,872</u>	<u>2,307,512</u>	<u>2,080,642</u>
Net assets, end of year	<u>\$ 2,672,367</u>	<u>\$ 2,528,872</u>	<u>\$ 2,307,512</u>

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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**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 2012, 2011, and 2010 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, 2012, total investment in capital assets was \$2.7 billion, yielding a net investment, after accumulated depreciation, of \$1.9 billion. The net increase in capital assets was \$55 million, consisting of net additions of \$159 million less depreciation of \$104 million. Among the more noteworthy increases were: the Nanoscience Center at \$15 million, the Animal Science Complex at \$23 million, the Devaney Center Renovation at \$16 million, the NCTA Education Center and residence hall for a combined cost of \$8 million, the Roskens Hall renovation at \$12 million, the Scott Court residence hall at \$21 million, and the Lied Center renovation at \$2 million. Additions to construction work in progress included East Stadium Sky Boxes at \$29 million and the 18<sup>th</sup>/19<sup>th</sup> & R residence halls at \$13 million. A UNFC bond issue financed the NCTA Education Center and residence hall project, backed by a capital appropriation and pledged residence hall revenues. MTI bond issues financed the construction of the 18<sup>th</sup>/19<sup>th</sup> & R residence halls and a portion of the Scott Court project (\$15 million) with the balance (\$6 million) funded by a gift. Capital gifts from the Foundation funded the East Stadium, Devaney Center, the Nanoscience Center, and the Roskens Hall renovations along with gifts from other private sources. The Animal Science Complex and other deferred maintenance construction work in progress projects were financed by the UNFC Series 2009 Bonds proceeds.

Net indebtedness decreased by \$13 million in 2012 following a decrease of \$16 million in 2011 and an increase of \$58 million in 2010. Indebtedness issued was \$143 million in 2012 with \$29 million and \$118 million issued in 2011 and 2010. The bond issuances in 2012 are accounted for by two MTI issues, those being the UNL Student Fees and Facilities 18<sup>th</sup>/19<sup>th</sup> & R student residence project and the UNL Student Fees and Facilities refunding bonds. The proceeds from refunding bonds were used to defease \$91 million of outstanding UNL Student Fees & Facilities bonds. In addition, UNFC called \$21 million of outstanding Series 2002 bonds.

The unrestricted net assets of the University grew by 10% or \$83 million during the year to \$902 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 \$1,251 million of operating revenues during 2012, an increase of \$9 million over 2011, while operating expenses were \$1,793 million, up \$5 million over the prior year. These changes resulted in a relatively unchanged operating loss of \$541 million for 2012 compared to a loss of \$545 in 2011. 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 \$55 million in 2012 compared to similar "losses" of \$55 million and \$38 million in 2011 and 2010, respectively. To management of the University, this consistent financial performance underscores the importance of continuing solid State support combined with modest tuition in fostering the stability of the enterprise.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

The Nebraska Legislature provided \$486 million in non-capital appropriations for 2012, a decrease of \$4 million over 2011 and similar decreases of \$7 million and \$5 million in 2011 and 2010. 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 \$137 million that, when combined with all other non-operating revenues and expenses including investment income of \$30 million, netted an overall increase in net assets of about \$143 million.

**Revenues.** The following chart depicts the revenues for 2012 and 2011 and the comparative changes that occurred between those years.

	2012		2011		2012-2011 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Tuition and fees	\$ 321,279	26%	\$ 291,855	23%	\$ 29,424	10%
Federal grants and contracts - restricted	242,907	19	246,802	20	(3,895)	(2)
State grants and contracts - restricted	32,228	3	33,644	3	(1,416)	(4)
Private grants and contracts - restricted	91,077	7	98,435	8	(7,358)	(7)
Sales and services of educational activities	88,046	7	103,977	8	(15,931)	(15)
Sales and services of health care entities	217,799	17	218,546	18	(747)	-
Sales and services of auxiliary operations	145,578	12	143,089	12	2,489	2
Sales and services of auxiliary segments	99,801	8	94,758	8	5,043	5
Other operating revenues	12,755	1	11,488	1	1,267	11
Total operating revenues	<u>\$ 1,251,470</u>	<u>100%</u>	<u>\$ 1,242,594</u>	<u>100%</u>	<u>\$ 8,876</u>	<u>1%</u>

The University's operating revenues increased in fiscal year 2012 by 1% or \$9 million. A three year comparison of revenues for the years 2012, 2011, and 2010 is presented on page 9.

- The largest increase in revenues was realized from tuition, which increased on a net basis by \$29 million for the 2012 year. The Board of Regents approved an increase in tuition of 5%, which when coupled with a 1% increase in enrollment, yielded a 10% increase in revenue. Tuition from growth in Online Worldwide distance education classes rounded out the total increase.
- Revenue from sales and services of educational activities decreased overall by \$16 million for the 2012 year. The decrease is attributable to NUTech Ventures, a blended entity that experienced a decrease of \$22 million in revenues in 2012 over 2011, primarily due to a large transaction in 2011. This decrease in revenues was offset by increases of \$6 million in other areas, including agricultural research revenues.
- Federal grants and contracts and student aid decreased by 2% in 2012 compared to increases of 12% and 16% in 2011 and 2010, respectively. Federal grants and contracts remain a very important revenue source that supports the research activity and student financial aid for the University.
- Private grants and contracts restricted decreased during the year by 7%, which reflects a lower level of support in certain areas by the private sector. It is anticipated this revenue source will increase to previous levels as the economy improves.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

- Sales and services of auxiliary operations and segments showed respective increases of 2% and 5% in 2012 compared to 2011 because of higher 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 2012 and 2011 and comparative changes that occurred between those years. A three year comparison of expenses for the years 2012, 2011, and 2010 is presented on page 9.

	2012		2011		2012-2011 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Compensation and benefits	\$ 1,126,038	63%	\$ 1,104,876	62%	\$ 21,162	2%
Supplies and materials	260,014	14	286,556	16	(26,542)	(9)
Contractual services	123,414	7	127,782	7	(4,368)	(3)
Repairs and maintenance	61,883	3	57,368	3	4,515	8
Utilities	34,984	2	36,854	2	(1,870)	(5)
Communications	14,377	1	13,425	1	952	7
Depreciation	104,088	6	90,846	5	13,242	15
Scholarships and fellowships	67,820	4	69,835	4	(2,015)	(3)
Total operating expenses	<u>\$ 1,792,618</u>	<u>100%</u>	<u>\$ 1,787,542</u>	<u>100%</u>	<u>\$ 5,076</u>	<u>0%</u>

Operating expenses increased by \$5 million for the 2012 fiscal year, remaining essentially flat. Changes in the major expense classifications follow.

- Compensation and benefits increased by 2% in 2012 following a 6% increase in 2011 compared to 2010 and is the only expenditure category (outside of depreciation) that showed a marked increase during the year. This result follows the efforts of management to offer competitive compensation while reducing other costs.
- Supplies and materials is the second largest expense after compensation and benefits but decreased by approximately 9% in 2012 reflecting a managed level of expenditures
- Repairs and maintenance was \$62 million in 2012, an increase of \$4 million compared to 2011 but closer to the level of expense in 2010 of \$76 million, indicating a commitment to maintain capital assets.
- Utilities expense once again decreased in 2012 for the third consecutive year. Increases in energy consumption by newly occupied facilities were offset by savings realized from energy conservation measures. Projects undertaken to reduce consumption included chiller replacements, window replacements, and other deferred maintenance projects.
- Scholarships and fellowships decreased modestly by \$2 million. The level of student aid awarded during 2012 is indicative of the University's effort to provide adequate financial aid to students yet operate within the current level of available revenues.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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*Non-Operating Revenues (Expenses).* Net non-operating revenues decreased during 2012 compared to 2011 by \$77 million. This change is primarily the result of a year-over-year decrease in fair value of investments of \$59 million and a decrease in investment income of \$9 million.

Support from the private sector and the Foundation provided the University with non-capital and capital gifts during the year of \$76 million and \$61 million respectively. This compares to \$74 million and \$68 million during 2011. 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 about the same level in 2012 as the previous two years. Capital appropriations were \$21 million, \$19 million, and \$18 million in 2012, 2011 and 2010, respectively, and included a total of \$11 million each year for debt service on both the 2006 and 2009 Series of deferred maintenance bonds and funds for fire and life safety projects. The 2012 capital appropriation also included \$802 for debt service on the NCTA Education Center.

### Capital Assets

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

- Construction of the Nanoscience Center (subsequently named the Volte-Keegan Nanoscience Research Center) was completed at the UNL campus at cost of \$15 million. The project was financed by a gift and Deferred Maintenance bonds proceeds. The facility will house the Nebraska Center for Materials and Nanoscience.
- The renovation of the Animal Science Complex was completed at a cost of \$23 million at UNL, financed by the Deferred Maintenance bonds. The complex will be home to the Animal Science Department of the Institute of Agriculture and Natural Resources.
- The Roskens Hall renovation project was completed at UNO at a cost of \$12 million dollars. The renovation was funded by capital gifts from the Foundation and other private sources. The facility houses the College of Education.
- Work continued on several deferred maintenance projects financed by the UNFC Deferred Maintenance bonds, including Wittson Hall at a cost of \$3 million and Poynter Hall at a cost of \$4 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 Devaney Sports Center Addition (now known as the Hendricks Training Complex) was completed at cost of \$16 million with funding provided by a capital gift. The Complex is the new practice facility for men's and women's basketball and wrestling.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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- The construction of the NCTA Education Center and the NCTA residence hall projects were completed at costs of \$6 million and \$2 million respectively. Both projects were bond financed through UNFC. The Education Center will be repaid by capital appropriations and the residence hall by student housing revenues.
- 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 bond financings during 2012 through the University of Nebraska Master Trust Indenture.

- On November 16, 2011, the Board of Regents issued \$63,475 of Series 2011 Bonds (University of Nebraska-Lincoln Student Fees and Facilities). The proceeds were used to pay the costs of constructing, equipping, and furnishing two new suite-style residence halls for the housing of over 1,000 students at the University of Nebraska-Lincoln campus. The bond proceeds were augmented by \$13,508 of bond surplus funds to fund the project cost of approximately \$71,385.
- On May 30, 2012, the Board of Regents issued \$80,180 of Refunding Bonds, Series 2012 (University of Nebraska-Lincoln Student Fees and Facilities) with an average rate of 3.1%. The net proceeds, together with certain other funds held by the trustee, were used to defease \$7,485 of Series 2002 Bonds, \$23,775 of Series 2003A Bonds, and \$60,120 of Series 2003B Bonds (University of Nebraska-Lincoln Student Fees and Facilities) with average rates of 1.0%, 3.5%, and 3.0%, respectively. The defeasance reduced total debt service payments by approximately \$15 million and resulted in an economic gain of approximately \$11 million. The accounting loss of \$6,422 is deferred and amortized over the life of the 2012 bonds. The aggregate amount of debt considered extinguished through this refunding (defeased) at June 30, 2012, that remains outstanding is \$91,380.

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, 2012, compared to 1.6 times for the year ended June 30, 2011, and 1.5 times for the year ended June 30, 2010. The debt service ratio required by the MTI covenants is 1.15 times.

The UNFC met all debt service requirements during 2012. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Project and the NCTA Education Center. The Deferred Maintenance Project appropriation is combined with designated tuition revenues for debt service on the deferred maintenance bond issues. The Foundation continues to 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.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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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 University continues to endeavor to move decisively in focused, strategic areas. The *Building a Healthier Nebraska Initiative* this year was the most visible example of this focus. The Initiative had the following components:

- A Comprehensive Cancer Center, in conjunction with the Nebraska Medical Center, at the UNMC campus of \$370 million;
- A combined Nursing and Allied Health Facility at the University of Nebraska at Kearney for \$18 million; and
- A Veterinary Diagnostic Center at the Lincoln campus for \$55 million.

Each of these capital projects puts significant resources to areas of great need. Cancer research is a long-standing focus of the UNMC campus. As cancer directly or indirectly impacts one of every two persons, its impact and the corresponding focus are easily seen. The Nursing and Allied Health facility recognizes and responds to a statistic showing that the State will likely be facing a shortage of 4,000 nurses by 2020. Lastly, the Veterinary Diagnostic facility directly supports animal agriculture, one of the largest industries in Nebraska.

The Governor and the Nebraska Legislature, in its 2012 session, provided much needed capital support to the Initiative. Upon meeting fund-raising targets, the State will provide \$50 million and \$15 million to the first two projects. For the Diagnostic Center, the State has pledged \$6 million in support for ten years to fund that facility.

Operating support has been flat, but stable. The Nebraska Legislature in its 2011 session (the last budgetary 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 (-1%), 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. Although the flat operating budgets required difficult reallocations, 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.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 and 2011 (UNAUDITED) (Columnar Amounts in Thousands)

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Further bolstering the economic outlook was the Nebraska Economic Forecasting Advisory Board's projections. In its October 2012 meeting, the Forecasting Board projected revenue gains of 4.5% each of the next two years. Driven by a strong agricultural economy (in spite of drought) and low unemployment, (3.9% versus a national benchmark of 7.8%), Nebraska's economy continues to outperform the national economy. 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.
- 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, 2012 AND 2011

(Thousands)

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

	2012	2011
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 525,068	\$ 473,429
Cash and cash equivalents - restricted	127,830	127,353
Cash and cash equivalents held by trustee - restricted	47,941	48,591
Investments - restricted	165,448	143,959
Investments held by trustee - restricted	10,151	39,597
Accounts receivable and unbilled charges, net	159,155	165,601
Loans to students, net	5,127	4,952
Other current assets	24,871	24,515
Total current assets	<u>1,065,591</u>	<u>1,027,997</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	2,291	2,321
Cash and cash equivalents held by trustee - restricted	144,465	101,579
Investments - restricted	247,562	269,470
Investments held by trustee - restricted	33,572	30,634
Investment in joint venture	282,013	275,175
Loans to students, net of current portion	28,135	29,581
Capital assets, net of accumulated depreciation	1,855,873	1,800,768
Other non-current assets	23,156	16,146
Total non-current assets	<u>2,617,067</u>	<u>2,525,674</u>
Total assets	<u>3,682,658</u>	<u>3,553,671</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	86,922	89,851
Accrued salaries and wages	47,120	59,167
Accrued compensated absences	54,413	53,657
Bond obligations payable	32,360	44,540
Capital lease obligations	622	1,621
Deferred revenues and credits	88,599	87,161
Health and other insurance claims	12,461	14,161
Total current liabilities	<u>322,497</u>	<u>350,158</u>
NON-CURRENT LIABILITIES:		
Accrued salaries and wages, net of current portion	96	244
Accrued compensated absences, net of current portion	17,386	17,332
Bond obligations payable, net of current portion	638,945	640,245
Capital lease obligations, net of current portion	2,820	3,442
Deferred revenues and credits, net of current portion	28,547	13,378
Total non-current liabilities	<u>687,794</u>	<u>674,641</u>
Total liabilities	<u>1,010,291</u>	<u>1,024,799</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,066,258	1,044,719
Restricted for:		
Nonexpendable:		
Permanent endowment	190,492	205,105
Expendable:		
Externally restricted funds for scholarships, student aid, and research	148,726	140,250
Loan funds	44,507	44,223
Plant construction	159,400	107,087
Debt service	161,384	168,315
Unrestricted	<u>901,600</u>	<u>819,173</u>
Total net assets	<u>\$2,672,367</u>	<u>\$2,528,872</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, 2012 AND 2011**  
**(Thousands)**  
**(See Independent Auditors' Reports on Pages 1, 2, and 3)**

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,380	\$ 2,055
Temporary investments	321,310	286,091
Pledges receivable	179,779	151,118
Other receivables	3,652	2,992
Investments	1,252,566	1,300,445
Property and equipment, net of depreciation	<u>6,068</u>	<u>6,830</u>
Total assets	<u>\$ 1,769,755</u>	<u>\$ 1,749,531</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 852	\$ 901
University of Nebraska benefits payable	3,078	2,837
Scholarships, research, fellowships and professorships payable	5,128	10,666
Deferred annuities payable	20,824	22,848
Deposits held in custody for others	270,021	281,001
Deferred revenues	<u>3,580</u>	<u>3,645</u>
Total liabilities	<u>303,483</u>	<u>321,898</u>
<b>NET ASSETS:</b>		
Unrestricted	(15,573)	14,332
Temporarily restricted	738,242	709,174
Permanently restricted	<u>743,603</u>	<u>704,127</u>
Total net assets	<u>1,466,272</u>	<u>1,427,633</u>
Total liabilities and net assets	<u>\$ 1,769,755</u>	<u>\$ 1,749,531</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, 2012 AND 2011 (Thousands)

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

	2012	2011
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances of \$90,288 and \$85,229 in 2012 and 2011, respectively)	\$ 321,279	\$ 291,855
Federal grants and contracts - restricted	242,907	246,802
State and local grants and contracts - restricted	32,228	33,644
Private grants and contracts - restricted	91,077	98,435
Sales and services of educational activities	88,046	103,977
Sales and services of health care entities	217,799	218,546
Sales and services of auxiliary operations	145,578	143,089
Sales and services of auxiliary segments (net of scholarship allowances of \$12,317 and \$12,212 in 2012 and 2011, respectively)	99,801	94,758
Other operating revenues	<u>12,755</u>	<u>11,488</u>
Total operating revenues	<u>1,251,470</u>	<u>1,242,594</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	886,353	871,672
Benefits	<u>239,685</u>	<u>233,204</u>
Total compensation and benefits	1,126,038	1,104,876
Supplies and materials	260,014	286,556
Contractual services	123,414	127,782
Repairs and maintenance	61,883	57,368
Utilities	34,984	36,854
Communications	14,377	13,425
Depreciation	104,088	90,846
Scholarships and fellowships	<u>67,820</u>	<u>69,835</u>
Total operating expenses	<u>1,792,618</u>	<u>1,787,542</u>
<b>OPERATING LOSS</b>	<u>(541,148)</u>	<u>(544,948)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State of Nebraska non-capital appropriations	486,155	489,774
Federal Grants	42,851	43,784
Gifts	75,688	74,083
Investment income (net of investment management fees of \$2,554 and \$2,511 in 2012 and 2011, respectively)	29,789	38,783
Increase (decrease) in fair value of investments	(16,518)	42,303
Interest on bond obligations	(25,017)	(25,495)
Equity in earnings of joint venture	12,838	27,765
Loss on disposal of capital assets	<u>(3,684)</u>	<u>(12,053)</u>
Net non-operating revenues	<u>602,102</u>	<u>678,944</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<u>60,954</u>	<u>133,996</u>
<b>OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:</b>		
Capital grants and gifts	61,288	68,153
State of Nebraska capital appropriations	20,553	18,740
Private gifts and bequests for permanent endowments	<u>700</u>	<u>471</u>
Net other revenues, expenses, gains, or losses	<u>82,541</u>	<u>87,364</u>
<b>INCREASE IN NET ASSETS</b>	143,495	221,360
<b>NET ASSETS:</b>		
Net assets, beginning of year	<u>2,528,872</u>	<u>2,307,512</u>
Net assets, end of year	<u>\$2,672,367</u>	<u>\$2,528,872</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 ACTIVITIES**  
**YEAR ENDED JUNE 30, 2012**  
**(with summarized financial information for the year ended June 30, 2011)**  
**(Thousands)**  
**(See Independent Auditors' Reports on Pages 1, 2, and 3)**

	2012			2011 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>REVENUES AND GAINS:</b>					
Gifts, bequests and life insurance proceeds	\$ 472	\$ 118,748	\$ 45,745	\$ 164,965	\$ 172,115
Investment income	25,641	5,516	-	31,157	30,041
Change in value of split-interest agreements	-	1,629	-	1,629	236
Realized gain on investments, net	48	21,982	-	22,030	48,959
Unrealized gain (loss) on investments, net	<u>(23,017)</u>	<u>(1,523)</u>	<u>-</u>	<u>(24,540)</u>	<u>120,659</u>
	3,144	146,352	45,745	195,241	372,010
Reclassification due to change in donor intent	-	6,269	(6,269)	-	-
NET ASSETS RELEASED FROM RESTRICTIONS	<u>123,553</u>	<u>(123,553)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>126,697</u>	<u>29,068</u>	<u>39,476</u>	<u>195,241</u>	<u>372,010</u>
<b>EXPENSES AND LOSSES:</b>					
Salaries and wages	11,474	-	-	11,474	10,982
Payroll taxes	761	-	-	761	752
Employee benefits	2,247	-	-	2,247	2,267
Postage	158	-	-	158	211
Office supplies and expense	152	-	-	152	155
Professional services	851	-	-	851	514
Travel and entertainment	741	-	-	741	825
Telephone	230	-	-	230	245
Insurance and bonds	106	-	-	106	109
Repair and maintenance	483	-	-	483	427
Equipment rental/purchase	32	-	-	32	36
Office rent	1,558	-	-	1,558	1,548
University Towers expense	31	-	-	31	32
Promotion expense	2,225	-	-	2,225	2,045
Auto expense	119	-	-	119	113
Dues and subscriptions	129	-	-	129	143
Alumni Associations	978	-	-	978	1,028
Miscellaneous expense	172	-	-	172	162
Recruiting and moving expense	152	-	-	152	17
Meetings and conferences	244	-	-	244	270
Investment expense	6,801	-	-	6,801	6,247
Academic support	38,410	-	-	38,410	30,355
Student assistance	17,960	-	-	17,960	23,571
Faculty assistance	4,645	-	-	4,645	5,069
Research	7,298	-	-	7,298	7,125
Museum, library, and fine arts	3,062	-	-	3,062	5,100
Campus and building improvements	51,348	-	-	51,348	57,877
Deferred compensation	17	-	-	17	34
Paid to beneficiaries	3,093	-	-	3,093	3,483
Bad debt and collection expense	13	-	-	13	7
Depreciation	<u>1,112</u>	<u>-</u>	<u>-</u>	<u>1,112</u>	<u>1,348</u>
Total expenses and losses	<u>156,602</u>	<u>-</u>	<u>-</u>	<u>156,602</u>	<u>162,097</u>
INCREASE (DECREASE) IN NET ASSETS	(29,905)	29,068	39,476	38,639	209,913
NET ASSETS at beginning of year	<u>14,332</u>	<u>709,174</u>	<u>704,127</u>	<u>1,427,633</u>	<u>1,217,720</u>
NET ASSETS at end of year	<u>\$(15,573)</u>	<u>\$738,242</u>	<u>\$743,603</u>	<u>\$ 1,466,272</u>	<u>\$ 1,427,633</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 (Thousands)

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

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Grants and contracts	\$ 416,414	\$ 392,780
Tuition and fees	318,270	292,706
Sales and services of health care entities	187,563	195,546
Sales and services of auxiliary operations	145,569	142,230
Sales and services of educational activities	120,941	123,336
Sales and services of auxiliary segments	99,980	95,757
Student loans collected	5,691	5,446
Other receipts	21,286	24,139
Payments to employees	(1,134,793)	(1,092,364)
Payments to vendors	(536,159)	(553,595)
Scholarships paid to students	(67,819)	(69,835)
Student loans issued	(4,511)	(3,607)
Other payments	(225)	(260)
Net cash flows from operating activities	<u>(427,793)</u>	<u>(447,721)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
State of Nebraska non-capital appropriations	486,312	490,008
Gifts	75,989	75,689
Federal grants	42,852	43,784
Private gifts and bequests for endowment use	699	472
Direct lending receipts	246,555	235,660
Direct lending payments	<u>(246,555)</u>	<u>(235,660)</u>
Net cash flows from non-capital financing activities	<u>605,852</u>	<u>609,953</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of bonds	143,655	48,257
Capital grants and gifts	44,344	73,608
State of Nebraska capital appropriations	20,735	19,146
Purchases of capital assets	(157,015)	(177,519)
Premium on issuance of bonds	14,124	-
Principal paid on bond obligations	(65,755)	(43,285)
Interest paid on bond obligations	(30,472)	(31,441)
Defeasance of bond obligations	(97,802)	(17,909)
Payments made on lease obligations	(1,621)	(6,506)
Payment of bond financial expense	(17)	(100)
Net cash flows from capital and related financing activities	<u>(129,824)</u>	<u>(135,749)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	667,752	490,330
Interest on investments	29,555	39,033
Distributions received from joint venture	6,000	6,000
Purchases of investments	<u>(657,220)</u>	<u>(503,188)</u>
Net cash flows from investing activities	<u>46,087</u>	<u>32,175</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>94,322</b>	<b>58,658</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>753,273</u></b>	<b><u>694,615</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 847,595</u></b>	<b><u>\$ 753,273</u></b>

See notes to financial statements.

(Continued)

# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 (Thousands)

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

	2012	2011
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 525,068	\$ 473,429
Cash and cash equivalents - restricted (current)	127,830	127,353
Cash and cash equivalents held by trustee - restricted (current)	47,941	48,591
Cash and cash equivalents - restricted (non-current)	2,291	2,321
Cash and cash equivalents held by trustee - restricted (non-current)	<u>144,465</u>	<u>101,579</u>
Cash and cash equivalents, end of year	<u>\$ 847,595</u>	<u>\$ 753,273</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (541,148)	\$ (544,948)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	104,088	90,846
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	23,033	(19,135)
Loans to students	1,457	2,067
Other current assets	1,217	(2,586)
Accounts payable	(7,323)	2,815
Accrued salaries, wages, compensated absences, and post-retirement benefits	(11,493)	8,487
Deferred revenues and credits	4,075	12,091
Health and other insurance claims	<u>(1,699)</u>	<u>2,642</u>
Net cash flows from operating activities	<u>\$ (427,793)</u>	<u>\$ (447,721)</u>
NON-CASH TRANSACTIONS:		
Capital gifts and grants	\$ 5,020	\$ 681
Increase (decrease) in fair value of investments	(16,518)	42,303
Purchase of capital assets through lease obligations	-	4,983

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## UNIVERSITY OF NEBRASKA FOUNDATION (A Component Unit of the University of Nebraska) CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 (Thousands)

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

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 38,639	\$ 209,913
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	1,112	1,348
Realized loss on investments, net	(22,030)	(48,959)
Unrealized gain (loss) on investments, net	24,540	(120,659)
Contribution to permanently restricted endowment funds	(45,745)	(67,886)
Real and personal property contributions received	(1,678)	(2,383)
(Increase) Decrease in:		
Pledges receivable	(24,550)	(8,668)
Other receivables	(511)	576
(Decrease) Increase in:		
Accounts payable and accrued liabilities	(49)	(779)
University of Nebraska benefits payable	241	1,067
Scholarships, research, fellowships, and professorships payable	(5,537)	7,845
Deferred annuities payable	(2,025)	(193)
Deferred revenue	(65)	(70)
Net cash used in operating activities	<u>(37,658)</u>	<u>(28,848)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of temporary investments	(166,961)	(374,350)
Proceeds from sale and maturity of temporary investments	132,077	338,623
Net decrease (increase) in student loans	(149)	82
Purchase of investments	(1,953,774)	(214,938)
Proceeds from the sale of property and equipment	269	-
Proceeds from sale and maturity of investments	1,989,312	213,418
Purchase of property and equipment	(426)	(299)
Net cash (used in) provided by investing activities	<u>348</u>	<u>(37,464)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contribution to permanently restricted endowment funds	41,635	63,404
Net cash provided by financing activities	<u>41,635</u>	<u>63,404</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,325</b>	<b>(2,908)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>2,055</u></b>	<b><u>4,963</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 6,380</u></b>	<b><u>\$ 2,055</u></b>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### 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 UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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- 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 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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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.

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 2012 and 2011 was \$25,017 and \$25,495, respectively, which is net of \$2,288 and \$2,189 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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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***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 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.

***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, 2012 and 2011, Federal grants and contracts includes Pell grant awards amounting to \$42,901 and \$45,527, 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 \$246,555 and \$235,660 at June 30, 2012 and 2011, 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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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*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.

*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 2011 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 \$1,770 (book balance of approximately \$1,033) at June 30, 2012, with approximately \$1,724 covered by Federal depository insurance. 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. Of the remaining bank balance at June 30, 2012 and 2011, approximately \$46 and \$270 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, 2012 and 2011 (Thousands)

Investments as of June 30, 2012:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
Certificates of Deposit	\$ 100	\$ 100	\$ -	\$ -	\$ -
U.S. treasuries	22,110	665	16,554	4,241	650
U.S. agencies	106,034	17,537	31,119 (1)	5,548 (2)	51,830
State governments	2,517	1,004	1,513 (3)	-	-
Municipal	1,088	-	-	1,088	-
Corporate debt	61,419	4,960	28,622	21,875 (4)	5,962
International bonds	9,638	1,262	1,147	2,458	4,771
	<u>202,906</u>	<u>\$ 25,528</u>	<u>\$ 78,955</u>	<u>\$ 35,210</u>	<u>\$ 63,213</u>
Other investments:					
Equity securities - domestic	118,828				
Equity securities - international	54,313				
Mutual funds	64,150				
Real estate mutual funds	8,341				
Real estate held for investment purposes	932				
Money market funds	7,263				
Total	<u>\$ 456,733</u>				

- (1) This amount includes \$6,671 of bonds which are callable in less than 1 year and \$2,399 of bonds which are callable in less than 2 years.
- (2) This amount includes \$839 of bonds which are callable in less than 1 year.
- (3) This amount includes bonds that are callable continuously.
- (4) This amount includes \$1,515 of bonds which are callable in less than 3 years.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (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 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.

**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, 2012 and 2011 (Thousands)

	2012					
	Fair Value	Quality Ratings				
		Aaa	AA	A	Baa	Unrated
Investment type:						
Debt securities:						
Certificates of Deposit	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ 100
U.S. treasuries	22,110	22,110	-	-	-	-
U.S. agencies	106,034	106,034	-	-	-	-
State governments	2,517	-	-	2,517	-	-
Municipal	1,088	-	1,088	-	-	-
Corporate debt	61,419	3,461	13,510	39,982	4,466	-
International bonds	9,638	3,671	803	1,513	1,607	2,044
Other investments:						
Equity securities - domestic	118,828	-	-	-	-	118,828
Equity securities - international	54,313	-	-	-	-	54,313
Mutual funds	64,150	-	-	-	-	64,150
Real estate mutual funds	8,341	-	-	-	-	8,341
Real estate held for investment purposes	932	-	-	-	-	932
Money market funds	7,263	-	-	-	-	7,263
	<u>\$ 456,733</u>	<u>\$ 135,276</u>	<u>\$ 15,401</u>	<u>\$ 44,012</u>	<u>\$ 6,073</u>	<u>\$ 255,971</u>

  

	2011				
	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Investment type:					
Debt securities:					
Certificates of Deposit	\$ 259	\$ -	\$ -	\$ -	\$ 259
U.S. treasuries	34,637	34,637	-	-	-
U.S. agencies	89,681	89,681	-	-	-
Municipal	3,494	-	1,052	2,442	-
Corporate debt	52,256	8,888	12,791	30,577	-
International bonds	10,766	-	-	-	10,766
Repurchase agreements	5,823	-	-	-	5,823
Other investments:					
Equity securities - domestic	134,828	-	-	-	134,828
Equity securities - international	55,477	-	-	-	55,477
Mutual funds	82,831	-	-	-	82,831
Real estate mutual funds	8,592	-	-	-	8,592
Real estate held for investment purposes	932	-	-	-	932
Money market funds	4,084	-	-	-	4,084
	<u>\$ 483,660</u>	<u>\$ 133,206</u>	<u>\$ 13,843</u>	<u>\$ 33,019</u>	<u>\$ 303,592</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (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 of 5% or more of the University’s portfolio are as follows at June 30:

	<b>Concentration</b>	
	<b>2012</b>	<b>2011</b>
Federal National Mortgage Association	9%	6%
Federal Home Loan Bank	5%	6%
Federal Home Loan Mortgage Association	5%	3%
U.S. Treasuries	5%	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, \$6.3 million of underlying securities were 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 from investment in international bonds is presented in the following table.

	<b>Foreign Currency</b>	
	<b>2012</b>	<b>2011</b>
Australian Dollar	\$ 1,670	\$ 1,481
British Pound	2,301	824
Canadian Dollar	-	694
EMU Euro	1,607	3,639
South Korea Won	534	553
Malaysian Ringgit	577	607
Mexican Peso	1,129	527
New Zealand Dollar	594	549
Norwegian Krone	-	676
Poland Zloty	770	878
South African Rand	456	338
Totals	<u>\$ 9,638</u>	<u>\$ 10,766</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### 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 \$13,143 and \$13,509 at June 30, 2012 and 2011, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately \$1,460 and \$1,406 at June 30, 2012 and 2011, 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, 2012 and 2011 totaling \$12,838 and \$27,765, 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 2012 and 2011.

Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42<sup>nd</sup> 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 included rental payments through 2012, which have been fully paid. The hospital building was recorded at approximately \$132,000 and is included in the University's financial statements at \$10,351 net of depreciation.

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, 2012 and 2011, the University received approximately \$25,870 and \$24,971, respectively, of support in connection with the agreement.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

### F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

	<b>2012</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	
Capital assets not being depreciated:				
Land	\$ 72,407	\$ 767	\$ (4)	\$ 73,170
Construction work in progress	155,979	125,849	(163,005)	118,823
Total capital assets not being depreciated	<u>228,386</u>	<u>126,616</u>	<u>(163,009)</u>	<u>191,993</u>
Capital assets, being depreciated:				
Land improvements	143,813	20,348	(4,531)	159,630
Leasehold improvements	13,209	-	-	13,209
Buildings	1,833,585	114,195	(18,439)	1,929,341
Equipment	340,535	65,841	(17,988)	388,388
Total capital assets, being depreciated	<u>2,331,142</u>	<u>200,384</u>	<u>(40,958)</u>	<u>2,490,568</u>
Less accumulated depreciation for:				
Land improvements	51,592	6,042	(3,467)	54,167
Leasehold improvements	3,406	441	-	3,847
Buildings	475,899	57,088	(16,063)	516,924
Equipment	227,863	40,552	(16,665)	251,750
Total accumulated depreciation other assets	<u>758,760</u>	<u>104,123</u>	<u>(36,195)</u>	<u>826,688</u>
Capital assets, net	<u>\$1,800,768</u>	<u>\$222,877</u>	<u>\$(167,772)</u>	<u>\$1,855,873</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

	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>

### G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2012	<u>\$ 70,989</u>	<u>\$ 53,584</u>	<u>\$ (52,774)</u>	<u>\$ 71,799</u>	<u>\$ 54,413</u>
2011	<u>\$ 70,041</u>	<u>\$ 47,280</u>	<u>\$ (46,332)</u>	<u>\$ 70,989</u>	<u>\$ 53,657</u>

### H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2012	<u>\$ 684,785</u>	<u>\$ 143,655</u>	<u>\$ (157,135)</u>	<u>\$ 671,305</u>	<u>\$ 32,360</u>
2011	<u>\$ 700,705</u>	<u>\$ 44,430</u>	<u>\$ (60,350)</u>	<u>\$ 684,785</u>	<u>\$ 44,540</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

Bond obligations payable at June 30, 2012 and 2011 consist of the following:

Obligations under the master trust indenture:	Interest Rate	Annual Installment	Principal Amount Outstanding	
			2012	2011
University of Nebraska-Lincoln:				
Student Fees and Facilities:				
Series 2002, revenue refunding	-	-	\$ -	\$ 8,570
Series 2003A, revenue bonds	-	-	-	24,235
Series 2003B, revenue bonds	-	-	-	62,430
Series 2008A, revenue bonds	3.25 - 5.00%	\$1,240 - \$2,360	29,050	30,255
Series 2009A, revenue bonds	2.00 - 5.25%	665 - 2,990	51,720	52,370
Series 2009B, revenue bonds	2.00 - 5.70%	435 - 1,840	10,680	10,680
Series 2011, revenue bonds	2.00 - 5.00%	1,435 - 4,095	63,475	-
Series 2012, refunding bonds	1.00 - 5.70%	1,220 - 3,095	80,180	-
Lincoln Parking Project:				
Series 2003, revenue refunding	3.60 - 4.50%	655 - 1,615	3,655	4,285
Series 2005, revenue and refunding	3.75 - 4.50%	425 - 3,825	18,220	19,600
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	3.90%	1,180	1,180	1,755
Student HPER Project Series 2008:				
Revenue bonds	3.00 - 5.00%	895 - 2,700	41,205	42,075
Student Housing and Parking Series 2003:				
Series 2003, revenue bonds	3.80 - 5.00%	375 - 945	12,765	13,130
Series 2007, revenue bonds	4.25 - 5.00%	605 - 2,395	27,580	28,160
Series 2010A, revenue bonds	1.50 - 4.83%	685 - 1,175	15,885	16,560
Series 2010B, revenue bonds	1.50 - 5.00%	375 - 1,060	17,345	17,715
University of Nebraska Medical Center:				
Student Housing revenue bonds				
Series 2003	3.85 - 5.00%	135 - 330	4,480	4,610
University of Nebraska at Kearney:				
Student Fees and Facilities:				
Series 2005 revenue refunding	3.55 - 4.10%	360 - 1,080	3,890	4,235
Series 2006 revenue bonds	3.80 - 5.00%	530 - 1,385	20,850	21,360
Total obligations under the master trust indenture			<u>413,720</u>	<u>373,585</u>
<b>Other University obligations:</b>				
University of Nebraska-Lincoln:				
Athletics:				
2004A, revenue refunding	4.25 - 5.00%	1,836 - 3,250	32,080	33,840
Total University obligations			<u>445,800</u>	<u>407,425</u>
<b>Obligations of blended entities:</b>				
University of Nebraska Facilities Corporation:				
Series 2011 bonds (Eye Institute)	2.00 - 4.59%	3,000 - 14,740	17,740	17,740
Series 2011 bonds (NCTA Education Center)	1.20 - 5.50%	55 - 1,645	10,390	10,885
Series 2010 bonds (OPPD Exchange Project)	1.75 - 3.00%	1,535 - 1,540	7,690	9,230
Series 2009 bonds (LB605)	2.00 - 4.66%	6,680 - 7,530	41,850	48,400
Series 2009 bonds (Health Professions Futures)	2.50 - 4.20%	700 - 18,235	18,935	19,835
Series 2007 bonds (Research Center)	5.00%	13,790	13,790	13,790
Series 2006 bonds (Sorrrell Center)	3.75 - 4.00%	1,700 - 3,175	9,275	12,225
Series 2006 bonds (LB605)	5.00%	7,815 - 11,550	86,185	93,700
Series 2004 (Library Storage Project)	4.00 - 5.00%	135 - 565	2,605	2,735
Series 2003 (Alexander Building Project)	4.00 - 5.00%	125 - 205	1,925	2,045
Series 2002 bonds (Durham Center)	-	-	-	30,765
Total University of Nebraska Facilities Corporation			<u>210,385</u>	<u>261,350</u>
Nebraska Utility Corporation (NUCorp):				
Series 2010 revenue bonds	1.00 - 5.00%	1,145 - 2,035	15,120	15,120
Series 2001 revenue bonds	-	-	-	890
Total bond obligations payable			<u>\$ 671,305</u>	<u>\$ 684,785</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

Annual maturities subject to mandatory redemption at June 30, 2012, are as follows:

	Total University		UNFC		NUCorp		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 10,965	\$ 19,145	\$ 20,250	\$ 8,907	\$ 1,145	\$ 605	\$ 32,360	\$ 28,657
2014	15,210	19,785	37,320	7,822	1,220	593	53,750	28,200
2015	15,635	19,290	22,665	6,707	1,230	577	39,530	26,574
2016	16,865	18,681	21,830	5,787	1,250	537	39,945	25,005
2017	16,945	17,389	19,470	4,791	1,225	475	37,640	22,655
2018-2022	93,790	78,810	83,245	7,940	7,015	1,373	184,050	88,123
2023-2027	89,985	57,207	4,720	728	2,035	47	96,740	57,982
2028-2032	78,015	36,656	505	190	-	-	78,520	36,846
2033-2037	64,645	19,732	380	43	-	-	65,025	19,775
2038-2042	39,650	4,915	-	-	-	-	39,650	4,915
2043-2047	4,095	102	-	-	-	-	4,095	102
Total	<u>\$445,800</u>	<u>\$291,712</u>	<u>\$210,385</u>	<u>\$42,915</u>	<u>\$15,120</u>	<u>\$ 4,207</u>	<u>\$671,305</u>	<u>\$338,834</u>

At June 30, 2012 and 2011, the trustees for these bond funds held cash and investments in the amount of approximately \$259,823 and \$220,398, 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, 2012, 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 Facilities), (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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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.

***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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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.

***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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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*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.

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 2012.

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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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 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 2002 Project was created for the purpose of paying a portion of the cost of construction of the Research Center of Excellence (now named the Durham Center) and a multi-level parking structure at UNMC.

On February 15, 2012, UNFC called the remaining outstanding Series 2002 Bonds of \$21,215 at par plus accrued interest as of the redemption date. There was no gain or loss on the redemption of these bonds.

### ***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 31, 2011, \$17,065 of bonds outstanding are considered defeased.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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.

### ***Bond Financing***

On November 16, 2011, the Board of Regents issued \$63,475 of Series 2011 Bonds (University of Nebraska-Lincoln Student Fees and Facilities). The proceeds were used to pay the costs of constructing, equipping, and furnishing two new suite-style residence halls for the housing of over 1,000 students at the University of Nebraska - Lincoln campus. The bond proceeds were augmented by \$13,508 of bond surplus funds to fund the project cost of approximately \$71,385.

On May 30, 2012, the Board of Regents issued \$80,180 of Refunding Bonds, Series 2012 (University of Nebraska-Lincoln Student Fees and Facilities) with an average rate of 3.1%. The net proceeds, together with certain other funds held by the trustee, were used to defease \$7,485 of Series 2002 Bonds, \$23,775 of Series 2003A Bonds, and \$60,120 of Series 2003B Bonds (University of Nebraska-Lincoln Student Fees and Facilities) with average rates of 1.0%, 3.5%, and 3.0%, respectively. The defeasance reduced total debt service payments by approximately \$15 million and resulted in an economic gain of approximately \$11 million. The accounting loss of \$6,422 is deferred and amortized over the life of the 2012 bonds.

The aggregate amount of debt considered extinguished (defeased) at June 30, 2012 that remains outstanding is \$91,380.

### ***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, 2012 and 2011, 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, 2012 and 2011, \$2,461 and \$3,405, respectively, are leases with the Foundation.

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
2012	<u>\$ 5,063</u>	<u>\$ -</u>	<u>\$ 1,621</u>	<u>\$ 3,442</u>	<u>\$ 622</u>
2011	<u>\$ 6,586</u>	<u>\$ 4,983</u>	<u>\$ 6,506</u>	<u>\$ 5,063</u>	<u>\$ 1,621</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (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:

	<b>Land</b>	<b>Buildings and Properties</b>	<b>Equipment</b>	<b>Total</b>
2013	\$ 246	\$ 322	\$ 187	\$ 755
2014	245	322	182	749
2015	245	322	47	614
2016	-	309	-	309
2017	-	170	-	170
2018-2022	-	850	-	850
2023-2027	-	834	-	834
	<u>736</u>	<u>3,129</u>	<u>416</u>	<u>4,281</u>
Less interest and executory costs	<u>54</u>	<u>755</u>	<u>30</u>	<u>839</u>
	<u>\$ 682</u>	<u>\$ 2,374</u>	<u>\$ 386</u>	<u>\$ 3,442</u>

Capital assets held under capital lease obligations at June 30, 2012, are as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$ 1,478	\$ -	\$ 1,478
Buildings	4,867	1,787	3,080
Equipment	<u>580</u>	<u>293</u>	<u>287</u>
	<u>\$ 6,925</u>	<u>\$ 2,080</u>	<u>\$ 4,845</u>

### J. HEALTH AND OTHER INSURANCE CLAIMS

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

	<b>Clinicians Self- Insurance</b>	<b>General Liability</b>	<b>Group Health and Dental</b>	<b>Total</b>
Claim reserve, July 1, 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	4,906	1,457	7,798	14,161
Incurred claims	340	777	123,602	124,719
Payments on claims	<u>(910)</u>	<u>(1,065)</u>	<u>(124,444)</u>	<u>(126,419)</u>
Claim reserve, June 30, 2012	<u>\$ 4,336</u>	<u>\$ 1,169</u>	<u>\$ 6,956</u>	<u>\$ 12,461</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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 \$500 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 3.5% 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, 2012 and 2011, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$143,618 and \$128,377, 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 2012 and 2011 was approximately \$858,813 and \$833,364, respectively, of which approximately \$643,630 and \$639,114 was covered by the plan. The University's contribution during 2012 and 2011 was approximately \$50,216, or 7.80%, and \$49,884, or 7.81%, of covered payroll, respectively, and the faculty and staff's contribution was approximately \$33,743, or 5.24%, and \$33,524, or 5.25%, of covered payroll, respectively.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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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 \$11,077 and \$10,620 for the years ended June 30, 2012 and 2011, 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 2012 and 2011 for the health insurance liability under current individual tenure buyout arrangements was \$48 and \$712, respectively. The expense incurred for 2012 and 2011 health insurance premium increases under all tenure buyout arrangements was \$6 and \$57, respectively. The total termination benefit obligation at June 30, 2012 and 2011 was \$277 and \$1,166, respectively.

### L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of facilities that are estimated to cost approximately \$523,984. As of June 30, 2012, the approximate remaining costs to complete these facilities were \$300,047, which will be financed as follows:

Bond funds	\$ 124,430
Federal funds	15,048
University funds	27,150
State capital appropriations	26,969
Private gifts, grants, and contracts	<u>106,450</u>
	<u>\$ 300,047</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, 2012 and 2011 (Thousands)

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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 pending the acceptance of the final feasibility report. 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, 2012 and 2011, NMC purchased approximately \$64,877 and \$58,958 of goods and services from the University.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

### N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2012:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$ 398,301	\$ 30,163	\$ 11,891	\$ 3,479	\$ 6	\$ 2,592	\$ 3,358	\$ -	\$ 449,790
Research	178,262	48,284	45,132	9,475	139	1,336	1,270	-	283,898
Public service	72,127	17,442	16,065	742	370	1,138	272	-	108,156
Academic support	87,771	26,366	79	235	27	1,501	162	-	116,141
Student services	24,858	5,321	568	276	1	317	546	-	31,887
Institutional support	75,599	20,107	5,737	1,029	65	1,390	76	-	104,003
Operation and maintenance of plant	35,690	3,651	3,504	38,751	32,496	326	34	-	114,452
Healthcare entities	164,399	13,052	17,936	1,941	151	1,032	1,301	-	199,812
Scholarships and fellowships	2,721	315	3,424	-	-	3	57,996	-	64,459
Auxiliary operations	86,310	95,313	19,078	5,955	1,729	4,742	2,805	-	215,932
Depreciation	-	-	-	-	-	-	-	104,088	104,088
Total expenses	<u>\$1,126,038</u>	<u>\$ 260,014</u>	<u>\$ 123,414</u>	<u>\$ 61,883</u>	<u>\$ 34,984</u>	<u>\$ 14,377</u>	<u>\$ 67,820</u>	<u>\$ 104,088</u>	<u>\$ 1,792,618</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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, 2012 and 2011 (Thousands)

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### 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 2008A, Series 2009A, Series 2009B, Series 2011, and Series 2012* – 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 2010B* – 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, 2012 and 2011 (Thousands)

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	Years Ended June 30,	
	2012	2011
<b>Condensed Statements of Cash Flows</b>		
Net cash flows from operating activities	\$ 45,266	\$ 36,345
Net cash flows from capital and related financing activities	18,043	(74,803)
Net cash flows from investing activities	7,448	(7,205)
Net change in cash and cash equivalents	70,757	(45,663)
Cash and cash equivalents, beginning of year	86,065	131,728
Cash and cash equivalents, end of year	<u>\$ 156,822</u>	<u>\$ 86,065</u>

### P. SUBSEQUENT EVENTS

On September 6, 2012, the Board of Regents issued \$20,690 of University of Nebraska-Lincoln Student Fees and Facilities Revenue Bonds, Series 2012B. The proceeds of the bonds will be used to pay the cost of acquiring, constructing, equipping, and furnishing facilities for health, physical education, and recreation facilities.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 14, 2012, 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, 2012 and 2011, the Foundation's net assets (including unrealized gains) totaled \$1,466,272, and \$1,427,633, respectively.

During the years ended June 30, 2012 and 2011, the Foundation contributed \$71 million and \$71 million, respectively, to the University for academic support, student assistance, faculty assistance, research, museums, and libraries. In addition, the Foundation provided capital gifts of \$51 million and \$58 million during 2012 and 2011, respectively, to the University. These contributions provided support for several projects, including the construction of the UNMC Health Professions Project, the UNMC Sorrell Center 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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### 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 consolidation.

##### (b) *Basis of Accounting and Presentation*

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

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

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### (c) *Cash and Cash Equivalents*

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

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

### (d) *Contributions*

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

### (e) *Investments and Temporary Investments*

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

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

### *(f) Property and Equipment*

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

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

### *(g) Deposits Held for Others*

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

### *(h) Fair Value of Financial Instruments*

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

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

### (i) *Income Taxes*

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

### (j) *Use of Estimates*

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

## (2) **Fair Value Measurements**

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

	<b>2012</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Certificates of deposit, savings, and money funds	\$ 25,133	25,133	–	–
U.S. government securities and sovereign debt	9,629	–	9,629	–
State government securities	1,589	–	1,589	–
Local government securities	1,475	–	1,475	–
International bonds	31,241	–	31,241	–
Corporate bonds	97,147	97,147	–	–
Common stock	301,109	281,926	–	19,183
Mutual funds - equity	68,522	68,522	–	–
Mutual funds - fixed income	159,257	159,257	–	–
Real estate funds	5,379	–	–	5,379
Limited partnerships	494,240	–	477,668	16,572
Preferred stock	167	–	167	–
Temporary investments:				
U.S. Treasuries	244,290	244,290	–	–
Certificates of deposit	6,329	–	6,329	–
State government securities	4,754	–	4,754	–
Local government securities	14,765	–	14,765	–
Corporate bonds	46,280	46,280	–	–
Total	<u>\$ 1,511,306</u>	<u>922,555</u>	<u>547,617</u>	<u>41,134</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

	2011			
	Total	Level 1	Level 2	Level 3
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 funds	5,770	-	-	5,770
Limited partnerships	550,122	-	535,522	14,600
Preferred stock	187	-	187	-
Temporary investments:				
U.S. Treasuries	281,191	281,191		
Certificates of Deposit	4,900		4,900	
Total	<u>\$ 1,525,451</u>	<u>920,600</u>	<u>584,481</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 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 UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

Balance, July 1, 2010	\$	183,970
Transfers and reclassifications		(160,560)
Net realized losses		(115)
Net unrealized gains		2,117
Interest, dividends, other income/losses		334
Investment management fees		(690)
Purchases		1,421
Distributions		(6,107)
Balance, June 30, 2011		<u>20,370</u>
Transfers and reclassifications		19,183
Net realized gains		2,261
Net unrealized losses		(876)
Interest, dividends, other income/losses		(60)
Investment management fees		(522)
Purchases		3,546
Distributions		(2,768)
Balance, June 30, 2012	\$	<u><u>41,134</u></u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

### (3) Investments

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

	<u>2012</u>	<u>2011</u>
Investments stated at fair value:		
Certificates of deposits, savings, and money funds	\$ 25,133	\$ 13,911
U.S. government securities and sovereign debt	9,629	7,113
State government securities	1,589	1,424
Local government securities	1,475	1,310
International bonds	31,241	34,025
Corporate bonds	97,147	13,320
Common stock	301,109	390,692
Mutual funds – equity	68,522	72,679
Mutual funds – fixed income	159,257	148,807
Real estate funds	5,379	5,770
Limited partnerships	494,240	550,122
Preferred stock	167	187
Investments stated at other than fair value:		
Real estate	47,828	47,516
Real estate mortgage and contracts	3,075	4,508
Other	3,862	4,154
Cash value of life insurance	2,755	4,699
Annuity contracts	158	208
Total	<u>\$ 1,252,566</u>	<u>\$ 1,300,445</u>
Temporary investments stated at fair value:		
U.S. Treasuries	\$ 244,290	\$ 281,191
Certificates of deposit	6,329	4,900
State government securities	4,754	–
Local government securities	14,765	–
Corporate bonds	46,280	–
Temporary investments stated at other than fair value:		
Real estate	4,892	–
Total	<u>\$ 321,310</u>	<u>\$ 286,091</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

	<b>2012</b>			
	<b>Fair Value</b>	<b>Unfunded commitments</b>	<b>*Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Domestic equities	\$ 142,978	–	m/q	1 – 90 days
International equities	229,956	–	m/q	1 – 90 days
Commodities	25,060	–	m/q	1 – 90 days
Private equity/venture capital	11,148	10,135	N/A	N/A
Real asset funds	10,803	4,147	N/A	N/A
Hedge funds:				
Domestic long/short	14,192	–	q/sa/a	90 – 360 days
Global long/short	18,313	–	q/sa/a	90 – 360 days
Multiple strategies	31,282	–	q/sa/a	90 – 360 days
Credit strategies	15,887	–	q/sa/a	90 – 360 days
	<u>\$ 499,619</u>	<u>14,282</u>		

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

	<b>2011</b>			
	<b>Fair Value</b>	<b>Unfunded commitments</b>	<b>*Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Domestic equities	\$ 171,987	–	m/q	1 – 90 days
International equities	188,875	–	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 asset 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>\$ 555,892</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, 2012 and 2011 (Thousands)

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### (4) Pledges Receivable

Pledges receivable are recorded on the consolidated statements of financial position as assets net of an allowance for uncollectible accounts and discounted to their present value. Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross amount due in:		
One year or less	\$ 67,409	49,634
One to five years	118,606	105,166
More than five years	<u>21,073</u>	<u>21,062</u>
	207,088	175,862
Less discount to present value	<u>21,749</u>	<u>20,070</u>
	185,339	155,792
Less allowance to present value	<u>5,560</u>	<u>4,674</u>
	<u><u>\$ 179,779</u></u>	<u><u>151,118</u></u>

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

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

### (5) Property and Equipment

Property and equipment at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Property	\$ 1,692	1,651
Leasehold improvements	3,291	3,157
Aircraft	4,177	4,177
Automobiles	265	290
Furniture, equipment, and software	<u>7,173</u>	<u>6,922</u>
	16,598	16,197
Less accumulated depreciation	<u>10,530</u>	<u>9,367</u>
Net property and equipment	<u><u>\$ 6,068</u></u>	<u><u>6,830</u></u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### (6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. The value of split-interest agreements is measured as the Foundation's share of the assets. Liabilities associated with these agreements as of June 30, 2012 and 2011 are \$20,824 and \$22,848, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position.

### (7) Net Assets

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

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

	<u>2012</u>	<u>2011</u>
Temporarily restricted – charitable trusts and annuities	\$ 28,319	31,201
Temporarily restricted – available for specific purposes	709,923	677,973
Permanently restricted – endowment	743,603	704,127
	<u>\$ 1,481,845</u>	<u>1,413,301</u>

Net assets of \$123,553 and \$136,989 were released from donor restrictions during 2012 and 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

### (8) Endowments

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

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

Endowment net asset composition by type of fund as of June 30, 2012 and 2011 is as follows:

<b>2012</b>				
	<b><u>Unrestricted</u></b>	<b><u>Temporarily restricted</u></b>	<b><u>Permanently restricted</u></b>	<b><u>Total net endowment assets</u></b>
Donor-restricted endowment funds	\$ (42,587)	260,415	743,603	961,431
<b>2011</b>				
	<b><u>Unrestricted</u></b>	<b><u>Temporarily restricted</u></b>	<b><u>Permanently restricted</u></b>	<b><u>Total net endowment assets</u></b>
Donor-restricted endowment funds	\$ (17,449)	290,601	704,127	977,279

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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

	<b>2012</b>			<b>Total net endowment assets</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Endowment net assets, beginning of year	\$ (17,449)	290,601	704,127	977,279
Contributions	-	5,902	45,745	51,647
Investment income, net of expenses	-	5,139	-	5,139
Net appreciation (depreciation)	(25,138)	1,516	-	(23,622)
Amounts appropriated for expenditure	-	(42,743)	-	(42,743)
Reclassification due to change in donor intent	-	-	(6,269)	(6,269)
Endowment net assets, end of year	<u>\$ (42,587)</u>	<u>260,415</u>	<u>743,603</u>	<u>961,431</u>

  

	<b>2011</b>			<b>Total net endowment assets</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Endowment net assets, beginning of year	\$ (49,526)	236,886	636,241	823,601
Contributions	-	1,601	67,886	69,487
Investment income, net of expenses	-	6,501	-	6,501
Net appreciation (depreciation)	32,077	87,227	-	119,304
Amounts appropriated for expenditure	-	(41,614)	-	(41,614)
Endowment net assets, end of year	<u>\$ (17,449)</u>	<u>290,601</u>	<u>704,127</u>	<u>977,279</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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(a) *Investment Return Objectives, Risk Parameters, and Strategies*

The Foundation has adopted investment and spending policies, approved by the Board of Directors of the Foundation, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities, and illiquid alternative investments that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, 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 five years and \$418 for the next five years. The Foundation entered into an amended lease agreement for office space in Kearney for the period from November 1, 2008 to October 31, 2014 at a rental rate of \$3.5 per month with an increase to \$3.6 effective November 1, 2011. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2012 are as follows:

2013	\$	1,008
2014		1,029
2015		1,010
2016		996
2017		996

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 and 2011 (Thousands)

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### **(10) Retirement Plan**

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

### **(11) Contingencies and Commitments**

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

### **(12) Subsequent Events**

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



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## 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, 2012 and 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 14, 2012. 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 these entities were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

### **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 a certain deficiency in internal control over financial reporting as described in our separately issued management letter that we consider to be a significant deficiency in internal control over financial reporting: Comment Number 1 (SAP Payables Access). 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 14, 2012.

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 and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska  
December 14, 2012

Mark Avery, CPA  
Audit Manager