The University of Nebraska

Basic Financial Statements and Additional Information
for the Years Ended June 30, 2013 and 2012
and Independent Auditors' Reports

Issued on December 16, 2013

THE UNIVERSITY OF NEBRASKA

TABLE OF CONTENTS

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

INDEPENDENT AUDITORS' REPORT

Board of Regents of the University of Nebraska
Lincoln, Nebraska:

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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, 6 percent, and 19 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors whose reports 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 solely on the report 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. 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.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, 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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 18 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 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* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska
December 13, 2013

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 financial statements of the University of Nebraska Foundation (a Nebraska not-for-profit corporation) (the Foundation) as of June 30, 2013 and 2012, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Nebraska Foundation as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Lincoln, Nebraska
September 24, 2013

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, 2013 and 2012. 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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No, 14 and 34* 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.

(Continued)

(Columnar Amounts in Thousands)

Student Enrollment – Headcount

	Fall Semester of Fiscal Year				
Campus	**2009**	**2010**	**2011**	**2012**	**2013**
UNL	23,573	24,100	24,610	24,593	24,207
UNMC	3,194	3,237	3,493	3,626	3,655
UNO	14,213	14,620	14,665	14,712	14,786
UNK	6,543	6,650	6,753	7,100	7,199
Total	47,523	48,607	49,521	50,031	49,847

The fall semester (fiscal 2013) headcount enrollment was 49,847 students on the four campuses. This represents a decline of approximately 180 compared to fiscal 2012, (fall 2011), but an increase of approximately 325 students compared to fiscal 2011 (fall 2010). The largest percent change within the underlying demographics is an increase in undergraduate students at UNK (up 1%), while graduate/professional students remained unchanged. 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 12,107, representing 24% 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 Position.*** Total net position and unrestricted net position of the University both grew by approximately 10% and are attributable to several factors. First, the University's investment in the Nebraska Medical Center joint venture increased by $15 million and is included in unrestricted. Second, trusteed insurance balances, which are also categorized as unrestricted, increased approximately $9 million on favorable experience for the general liability and property self-insurance and the employee group health insurance programs. Third, the UNMC Physicians, a blended entity, realized an increase in net position of $11 million. The increases in net position other than the unrestricted category can be traced to increases of $137 million and $25 million in the invested in capital assets and plant construction categories. This growth comes courtesy of capital gifts and the funds otherwise earmarked for capital projects detailed below. Maintenance of a prudent level of reserves is a key to the long-term success of the University.

- ***New Capital Construction.*** Investment in capital projects followed University priorities. The following endeavors align behind the educational, research, and public service missions and make the University more competitive in continuing to attract high caliber students and faculty.
  - A major capital construction project at UNMC began with the issuance of UNFC bonds to finance a portion of the Fred and Pamela Buffet Cancer Center that is to be constructed in partnership with the Nebraska Medical Center. Deferred maintenance was completed on the Eppley Cancer Institute and Poynter Hall at UNMC while considerable construction was completed on the Truhlsen Eye Institute.

- At UNO, work began on the Biomechanics Research Facility and Peter Kiewit Institute Renovation projects.
- Construction is underway on new student residences (18^{th}/19^{th} & R streets) at UNL while the East Stadium and Athletic Performance Laboratory projects and improvements to the Devaney Sports Center were completed.
- At UNK, renovation began of the Centennial Tower East residence hall and renovation of the Centennial Tower West residence hall was completed.

- ***Indebtedness*.** Overall, bonded indebtedness increased in 2013 by about $13 million on a base of $671 million at June 30, 2012, the result of two new issues net of maturities/calls. The first new issue was under the MTI and was $20,690 of bonds used to finance the construction of health, physical education, and recreation facilities at UNL. The second financing was issued by the University of Nebraska Facilities Corporation (UNFC) with $31,205 of bonds issued to bridge finance donor pledges for partial funding of a Cancer Research Center Tower portion of the Buffett Cancer Center at UNMC. During 2013, the University called the remaining outstanding UNMC Sorrell Center Bonds of $6,575.

  Financial performance in the areas financed by Master Trust Indenture (MTI) revenue bonds (unions, student residences, and parking) led to strong and improved debt coverage ratios. Strong performance also allows MTI members to create reserves that allow measured, planned modernizations of facilities and equity infusion into projects without incurring incremental borrowings that would otherwise be required.

- ***State appropriations and tuition*.** State non-capital appropriations increased by 2.4% in 2013 compared to 2012. The 2013 increase followed decreases of 1% and 1.5% in 2012 and 2011, respectively. The Board of Regents approved a tuition increase of 3.75% for 2013. This increase permitted salary increases negotiated under certain union contracts 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 3.75% tuition increase compares to a 5% increase in 2012 and 6% for 2011.

- ***Federal Grants and Contracts.*** Revenues from Federal grants and contracts decreased by 8.3% in 2013 and 1% in 2012 but which followed an increase of 12% in 2011. Support from Federal grants and contracts, because of Federal slowdowns, decreased to $223 million in 2013 compared to $243 million in 2012 and $247 million in 2011. 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 $116 million in 2013 compared to $62 million in 2012, and $68 million in 2011. The largest of the gifts in 2013 was $20 million from the University of Nebraska Foundation for the UNMC Cancer Research Center Tower. At UNL, Foundation gifts of $14 million financed the completion of the East Stadium Project, Athletic Performance Laboratory, and the Devaney Sports Center improvements. The UNO campus received a gift of $6 million for the construction of the Community Engagement Center.

(Continued)

Using the Financial Statements

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

Statement of Net Position. The Statement of Net Position includes all of the assets, deferred outflows, liabilities, and deferred inflows of the University and its component units on the accrual basis of accounting. The difference between total assets and deferred outflows and total liabilities and deferred inflows represents the net position of the University, and is one indicator of its overall current financial condition. Over time, increases or decreases in the University's net position 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 position is divided into three parts:

- Invested in Capital Assets Net of Related Debt. The University's total investment in capital assets, net of accumulated depreciation and reduced by outstanding bond obligations incurred to acquire, construct, or improve those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included.
- Restricted:
  - 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: Comprised of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Revenues, Expenses, and Changes in Net Position 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.

(Columnar Amounts in Thousands)

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

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

Condensed Financial Statements and Analysis

Condensed Statements of Net Position

	June 30, 2013	2012	2011
Assets			
Current assets	$ 1,239,000	$ 1,068,829	$ 1,038,888
Capital assets, net of accumulated depreciation	1,985,204	1,855,873	1,800,768
Other non-current assets	798,808	774,223	724,906
Total assets	4,023,012	3,698,925	3,564,562
Liabilities, Deferred Inflows, and Net Position			
Current liabilities	395,133	322,497	350,158
Non-current liabilities	684,084	685,025	674,641
Total liabilities	1,079,217	1,007,522	1,024,799
Deferred Inflows of Resources			
Deferred service concession arrangement receipts	16,216	18,642	11,016
Net position:			
Invested in capital assets, net of related debt	1,414,153	1,277,228	1,044,719
Restricted for:			
Nonexpendable:			
Permanent endowment	204,529	190,492	205,105
Expendable:			
Externally restricted funds	160,479	148,726	140,250
Loan funds	44,869	44,507	44,223
Plant construction	185,744	159,447	107,087
Debt service	157,353	161,384	168,315
Unrestricted	760,452	690,977	819,048
Total net position	$ 2,927,579	$ 2,672,761	$ 2,528,747

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012 (UNAUDITED)
(Columnar Amounts in Thousands)

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

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues:			
Tuition and fees	$ 336,112	$ 321,279	$ 291,855
Federal grants and contracts - restricted	222,779	242,907	246,802
State grants and contracts - restricted	32,224	32,228	33,644
Private grants and contracts - restricted	116,706	91,077	98,435
Sales and services of educational activities	93,759	88,046	103,977
Sales and services of health care entities	227,924	217,799	218,546
Sales and services of auxiliary operations	167,726	145,480	142,841
Sales and services of auxiliary segments	103,180	99,886	94,758
Other operating revenues	13,132	12,777	11,488
Total operating revenues	1,313,542	1,251,479	1,242,346
Operating Expenses:			
Salaries and wages	920,748	886,353	871,672
Benefits	253,832	239,685	233,204
Total compensation and benefits	1,174,580	1,126,038	1,104,876
Supplies and materials	268,830	260,109	286,566
Contractual services	134,263	123,414	127,782
Repairs and maintenance	56,831	61,905	57,368
Utilities	35,390	34,984	36,854
Communications	14,918	14,377	13,425
Depreciation	106,788	104,088	90,846
Scholarships and fellowships	70,155	67,820	69,835
Total operating expenses	1,861,755	1,792,735	1,787,552
Operating Loss	(548,213)	(541,256)	(545,206)
Non-operating Revenues (Expenses):			
State of Nebraska noncapital appropriations	498,509	486,155	489,774
Federal grants	42,308	42,851	43,784
Gifts	83,238	75,821	74,216
Investment income	33,201	29,789	38,783
Increase (decrease) in fair value of investments	13,428	(16,518)	42,303
Interest on bond obligations	(23,448)	(25,017)	(25,495)
Equity in joint venture	20,734	12,838	27,765
Loss on disposal of plant assets	(2,135)	(3,684)	(12,053)
Net non-operating revenues	665,835	602,235	679,077
Income before Other Revenues, Expenses, Gains or Losses	117,622	60,979	133,871
Other Revenues, Expenses, Gains or Losses:			
Capital grants and gifts	115,530	61,782	68,153
State of Nebraska capital appropriations	21,019	20,553	18,740
Additions to permanent endowments	647	700	471
Net other revenues, expenses, and gains or losses	137,196	83,035	87,364
Increase in net position	254,818	144,014	221,235
Net Position:			
Net position, beginning of year	2,672,761	2,528,747	2,307,512
Net position, end of year	$ 2,927,579	$ 2,672,761	$ 2,528,747

(Continued)

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 2013, 2012, and 2011 due to yields gained on cash balances in the State investment pool, unexpended bond proceeds on hand, and cash held by blended entities.

Non-current assets of the University are dominated by the investment in capital assets. At June 30, 2013, total investment in capital assets was $2.9 billion, yielding a net investment, after accumulated depreciation, of $2 billion. The increase in capital assets was $129 million, consisting of additions of $236 million net of depreciation of $107 million. Among the more noteworthy increases were:

- the East Stadium Sky Boxes and Athletic Performance Laboratories at $36 million,
- Devaney Sports Center improvements at $13 million,
- Truhlsen Eye Institute at $16 million,
- Poynter Hall renovation at $9 million, and
- the Eppley Cancer Institute renovation at $12 million.

Additions to construction work in progress included:

- 18th/19th & R Student Residences at $34 million,
- Life Science Annex at $6 million,
- Centennial Tower West student residences at $5 million, and
- 18th & R Parking Garage at $5 million.

Capital gifts from the Foundation funded the East Stadium, Truhlsen Eye Institute, Athletic Performance Laboratories, and Devaney Sports Center improvements. All other projects were funded or partially funded from MTI and UNFC bond issues of prior years, or in the case of Centennial Tower, internally financed through use of bond surpluses generated in prior years.

Net bonded indebtedness increased by $13 million in 2013 following decreases of $14 million and $17 million in 2012 and 2011. Indebtedness issued was $52 million in 2013 with $143 million and $29 million issued in 2012 and 2011. The bond issuances in 2013 are accounted for by the UNL student recreation issue under the MTI and the Cancer research issued by UNFC discussed earlier.

The unrestricted net position of the University grew by 10% or $70 million during the year to $761 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 $1,314 million of operating revenues during 2013, an increase of $62 million over 2012, while operating expenses were $1,862 million, up $69 million over the prior year. These changes resulted in an increase in the operating loss of $7 million to $548 million in 2013 compared to losses $541 million and $545 million for 2012 and 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 position, the University's "operating loss after appropriations" would have been $50 million in 2013 compared to similar "losses" of $55 million for both 2012 and 2011, 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.

(Columnar Amounts in Thousands)

The Nebraska Legislature provided $499 million in non-capital appropriations for 2013, an increase of $12 million over 2012 after decreases of $4 million and $7 million in 2012 and 2011, respectively. The University, in conjunction with the Foundation, generated non-operating and capital gifts of approximately $199 million that, when combined with all other non-operating revenues and expenses including investment income of $33 million, netted an overall increase in net position of about $255 million.

Revenues. The following chart depicts the revenues for 2013 and 2012 and the comparative changes that occurred between those years.

	2013		2012		2013-2012 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Tuition and fees	$ 336,112	26%	$ 321,279	26%	$ 14,833	5%
Federal grants and contracts - restricted	222,779	17	242,907	19	(20,128)	(8)
State grants and contracts - restricted	32,224	2	32,228	3	(4)	0
Private grants and contracts - restricted	116,706	9	91,077	7	25,629	28
Sales and services of educational activities	93,759	7	88,046	7	5,713	6
Sales and services of health care entities	227,924	17	217,799	17	10,125	5
Sales and services of auxiliary operations	167,726	13	145,480	12	22,246	15
Sales and services of auxiliary segments	103,180	8	99,886	8	3,294	3
Other operating revenues	13,132	1	12,777	1	355	3
Total operating revenues	$ 1,313,542	100%	$ 1,251,479	100%	$ 62,063	5%

The University's operating revenues increased in fiscal year 2013 by 5% or $62 million. A three year comparison of revenues for the years 2013, 2012, and 2011 is presented on page 11.

- The largest increase in revenue was realized in private grants and contracts restricted which increased during the year by 28% reflecting higher levels of income from university activities with those in the private sector. The economy improved, particularly in the agribusiness sector, which prompted a higher level of support from private sources similar to those enjoyed prior to the economic downturn.

- Sales and services of auxiliary operations and segments showed respective increases of 15% and 3% in 2013 compared to 2012 and the second largest (combined) revenue increase 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.

- The next largest increase in revenues in dollars was realized from tuition, which increased on a net basis by $15 million for the 2013 year. The Board of Regents approved an increase in tuition rates of 3.75% that yielded a moderate increase of 5% in tuition revenue, reflecting an increase of 21% in distance education tuition revenues and an offsetting slightly lower enrollment in 2013 compared to 2012.

(Continued)

(Columnar Amounts in Thousands)

- Revenue from sales and services of educational activities increased overall by $6 million or 6% for the 2013 year. The increase reflects modest price increases for services and a greater demand for services.

- Federal grants and contracts and student aid decreased by 8% in 2013 compared to a decrease of 2% in 2012 and an increase of 12% in 2011. Federal grants and contracts activity slowed in the latter part of fiscal 2013 because of budgetary concerns by Federal agencies and their resultant push to preserve operating cash and slowing award activity.

- Sales and services of healthcare entities increased by $10 million in 2013 compared to 2012. This increase is attributed to a greater number of patient visits to the UNMC clinics and greater revenues experienced by UNMC Physicians, a blended entity.

Expenses. The following chart shows the University's expenses for 2013 and 2012 and comparative changes that occurred between those years. A three year comparison of expenses for the years 2013, 2012, and 2011 is presented on page 11.

	2013		2012		2013-2012 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Compensation and benefits	$ 1,174,580	63%	$ 1,126,038	63%	$ 48,542	4%
Supplies and materials	268,830	14	260,109	14	8,721	3
Contractual services	134,263	7	123,414	7	10,849	9
Repairs and maintenance	56,831	3	61,905	3	(5,074)	(8)
Utilities	35,390	2	34,984	2	406	1
Communications	14,918	1	14,377	1	541	4
Depreciation	106,788	6	104,088	6	2,700	3
Scholarships and fellowships	70,155	4	67,820	4	2,335	3
Total operating expenses	$ 1,861,755	100%	$ 1,792,735	100%	$ 69,020	4%

Operating expenses increased by $69 million for the 2013 fiscal year. Changes in the major expense classifications follow.

- Compensation and benefits increased by 4% in 2013 following a 2% increase in 2012 compared to 6% for 2011. While the 2013 salary pool was 2.5%, additional amounts were expended for targeted strategic growth areas including continued support for programs of excellence, funding for instructional workload salaries, and research initiative programs, maintenance services for newly opened facilities, and intercampus development.

- Supplies and materials is the second largest expense after compensation and benefits and increased by a nominal amount (3%) compared to 2012 reflecting a managed level of expenditures.

- Repairs and maintenance was $57 million in 2013, a decrease of $5 million compared to 2012 but closer to the level of expense in 2011 of $57 million, indicating an on-going, consistent commitment to fund and maintain capital assets.

- Utilities expense increased slightly in 2013 after decreases for three consecutive years. The small increase in 2013 continues the trend of increases in energy consumption by newly occupied facilities being 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 increased by $2 million. The level of student aid awarded during 2013 is indicative of the University's continued effort to provide adequate financial aid to students yet operate within the current level of available revenues.

Non-Operating Revenues (Expenses). Net non-operating revenues increased during 2013 compared to 2012 by $64 million. This change is primarily the result of a year-over-year increase in fair value of investments of $30 million, an increase in noncapital appropriations of $13 million, and an increase in gifts of $7 million.

Support from the Foundation and the private sector provided the University with capital and non-capital gifts during the year of $116 million and $83 million, respectively. This compares to $62 million and $76 million during 2012. Non-capital gifts support scholarships to students, professorships, 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 2013 as the previous two years. Capital appropriations were $21 million in both 2013 and 2012 and $19 million in 2011, and included a total of $11 million each year for debt service on both the 2006 and 2009 Series of deferred maintenance bonds. The 2013 capital appropriation also included $800 and $802 for debt service on the NCTA Education Center in 2013 and 2012.

Capital Assets

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

- Construction was completed on the UNL East Stadium project at cost of $31 million. The construction added 5,000 seats and 31 suites to UNL's Memorial Stadium. This project also included research space and the athletic performance laboratories within the structure at combined cost of $5 million. The research space will house the Center for Brain, Biology, and Behavior and associated faculty and support space. These projects were funded by capital gifts from the Foundation and other University funds.
- Improvements to the Devaney Sports Center were completed at a cost of $13 million. Capital gifts from the Foundation funded the project. The improvements provided athletic space for UNL volleyball, wrestling, and gymnastics.
- Construction of a new suite-style student residence hall at $18^{th}/19^{th}$ & R streets at a cost of $71 million will augment on-campus housing available to students on the UNL campus. The project was financed by MTI revenue bonds and student fees and facilities revenue bonds surplus funds.

- The Stanley M. Truhlsen Eye Institute was completed at a cost of $16 million. The facility is home to the UNMC Department of Ophthalmology and Visual Sciences. The project was funded by private donor gifts.

- Work continued on several deferred maintenance projects financed by the UNFC Deferred Maintenance bond. Renovation of Poynter Hall at UNMC was completed at a cost of $9 million in addition to the renovation of the Eppley Cancer Institute at a cost of $12 million. 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.

More information on capital asset activity is disclosed in the Notes to the Financial Statements included in this report on page 37.

Debt Activity

Bond Financings. The University marketed two bond financings during 2013. The first was through the MTI. In September 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 were used to pay the cost of acquiring, constructing, equipping, and furnishing facilities for health, physical education, and recreation facilities at the University of Nebraska-Lincoln campus.

The second financing was issued by the UNFC to finance a portion of the construction of a Cancer Center Tower that is a part of the Fred and Pamela Buffet Cancer Center to be constructed on the UNMC campus. The Cancer Center project is comprised of the Tower (budgeted at $110 million) and a $260 million hospital (to be funded by The Nebraska Medical Center hospital). In June 2013, UNFC issued $31,205 UNMC Cancer Center Bonds, Series 2013, to provide bridge financing for donor pledges. The proceeds will be used to pay a portion of the cost of a Cancer Center Tower. The remainder of the construction will be funded by cash on hand and a State of Nebraska capital appropriation of $50,000.

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 1.7 times for the year ended June 30, 2013, compared to 1.6 times for both 2012, and 2011. The debt service ratio required by the MTI covenants is 1.15 times.

The UNFC met all debt service requirements during 2013. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Projects 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, as scheduled, from donor gifts pledged toward the funding of the gift-funded projects. Funds from internal University sources continue to meet expectations allowing the service of UNFC-related debt obligations in their normal course.

More information on debt financing is disclosed on page 38 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 and the State of Nebraska is good.

The State of Nebraska finished fiscal 2013 in June with $285 million of receipts over projections, with the majority of this positive variance coming on the strength of individual income tax receipts. The State's general fund status is also favorable compared to other states, with the outlying biennium (July 1, 2015 through June 30, 2017) showing only a $4 million dollar deficit. Unemployment in Nebraska continues to trend at about half the national benchmark.

The Governor and the Nebraska Legislature, in its 2013 session, provided operating increases of 4% for both the fiscal years 2014 and 2015. This was part of an Affordability Initiative that was the creation of the Governor, Legislature, and President J.B. Milliken whereby the increase noted above, the first increase after five years of essentially flat funding, was given in exchange for maintaining flat resident tuition for fall 2013 and fall 2014. This also supports a strategic goal of the Board and the President/Chancellors to strive to keep higher education affordable.

The University continues to endeavor to differentiate itself in focused, strategic areas. The Buffett Early Childhood Institute, the Water for Food Initiative, and the Rural Futures Institute are just a few of the strategic pillars that form a framework for the University as it moves decisively forward. The University's National Strategic Research Institute (NSRI) is another example of strategic movement by the Board of Regents and the University. NSRI is the 14th University Affiliated Research Center (UARC) in the United States and only the second such entity in the Big Ten. A UARC is a specially designed entity that provides essential engineering and technology capabilities of particular importance to the US Department of Defense. This enterprise will prove increasingly important in maintaining research pre-eminence in an era of declining traditional Federal grants and contracts sources. It also assists in retaining key faculty assets in the research enterprise.

The Foundation also reported record results for fund raising in 2013 with $236 million raised versus the prior record of $172 million. This is greatly valued as it provides scholarships, professorships, and much needed capital project monies.

Early enrollment counts have fall 2013 (fiscal 2014) enrollment, on a head count basis, at approximately 50,400 on all campuses, up about 1.1% over the previous year. The enrollment increases portend a good 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 POSITION
JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 596,407	$ 525,068
Cash and cash equivalents - restricted	162,194	127,830
Cash and cash equivalents held by trustee - restricted	62,673	47,941
Investments - restricted	176,501	165,448
Investments held by trustee - restricted	7,182	10,151
Accounts receivable and unbilled charges, net	200,234	162,393
Loans to students, net	5,581	5,127
Other current assets	28,228	24,871
Total current assets	1,239,000	1,068,829
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	2,248	2,291
Cash and cash equivalents held by trustee - restricted	149,397	144,465
Investments - restricted	269,976	247,562
Investments held by trustee - restricted	28,829	33,572
Accounts receivable and unbilled charges, net	10,626	13,029
Investment in joint venture	296,747	282,013
Loans to students, net of current portion	27,917	28,135
Capital assets, net of accumulated depreciation	1,985,204	1,855,873
Other non-current assets	13,068	23,156
Total non-current assets	2,784,012	2,630,096
Total assets	4,023,012	3,698,925
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	123,845	86,922
Accrued salaries and wages	49,062	47,120
Accrued compensated absences	56,631	54,413
Bond obligations payable	52,680	32,360
Capital lease obligations	581	622
Deferred revenues and credits	99,038	88,599
Health and other insurance claims	13,296	12,461
Total current liabilities	395,133	322,497
NON-CURRENT LIABILITIES:		
Accounts payable	5,651	-
Accrued salaries and wages, net of current portion	20	96
Accrued compensated absences, net of current portion	17,605	17,386
Bond obligations payable, net of current portion	631,585	638,945
Capitalized lease obligations, net of current portion	744	2,820
Deferred revenues and credits, net of current portion	28,479	25,778
Total non-current liabilities	684,084	685,025
Total liabilities	1,079,217	1,007,522
DEFERRED INFLOWS OF RESOURCES:		
Deferred service concession arrangement receipts	16,216	18,642
NET POSITION:		
Invested in capital assets, net of related debt	1,414,153	1,277,228
Restricted for:		
Nonexpendable:		
Permanent endowment	204,529	190,492
Expendable:		
Externally restricted funds for scholarships, student aid, and research	160,479	148,726
Loan funds	44,869	44,507
Plant construction	185,744	159,447
Debt service	157,353	161,384
Unrestricted	760,452	690,977
Total net position	$ 2,927,579	$ 2,672,761

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, 3, 4, and 5)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 314	$ 6,380
Temporary investments	353,132	321,310
Pledges receivable	214,128	179,780
Other receivables	3,950	3,651
Investments	1,384,210	1,252,566
Property and equipment, net of depreciation	5,585	6,068
Total assets	$ 1,961,319	$ 1,769,755
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 909	$ 852
University of Nebraska benefits payable	2,940	3,078
Scholarships, research, fellowships and professorships payable	4,883	5,128
Deferred annuities payable	20,966	20,824
Deposits held in custody for others	297,714	270,021
Deferred revenues	3,516	3,580
Total liabilities	330,928	303,483
NET ASSETS:		
Unrestricted	3,226	(15,574)
Temporarily restricted	857,029	738,242
Permanently restricted	770,136	743,604
Total net assets	1,630,391	1,466,272
Total liabilities and net assets	$ 1,961,319	$ 1,769,755

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2013	2012
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of $97,385 and $90,288 in 2013 and 2012, respectively)	$ 336,112	$ 321,279
Federal grants and contracts - restricted	222,779	242,907
Private grants and contracts - restricted	116,706	91,077
State and local grants and contracts - restricted	32,224	32,228
Sales and services of educational activities	93,759	88,046
Sales and services of health care entities	227,924	217,799
Sales and services of auxiliary operations	167,726	145,480
Sales and services of auxiliary segments (net of scholarship allowances of $12,367 and $12,317 in 2013 and 2012, respectively)	103,180	99,886
Other operating revenues	13,132	12,777
Total operating revenues	1,313,542	1,251,479
OPERATING EXPENSES:		
Salaries and wages	920,748	886,353
Benefits	253,832	239,685
Total compensation and benefits	1,174,580	1,126,038
Supplies and materials	268,830	260,109
Contractual services	134,263	123,414
Repairs and maintenance	56,831	61,905
Utilities	35,390	34,984
Communications	14,918	14,377
Depreciation	106,788	104,088
Scholarships and fellowships	70,155	67,820
Total operating expenses	1,861,755	1,792,735
OPERATING LOSS	(548,213)	(541,256)
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	498,509	486,155
Federal Grants	42,308	42,851
Gifts	83,238	75,821
Investment income (net of investment management fees of $5,124 and $2,554 in 2013 and 2012, respectively)	33,201	29,789
Increase (decrease) in fair value of investments	13,428	(16,518)
Interest on bond obligations	(23,448)	(25,017)
Equity in joint venture	20,734	12,838
Loss on disposal of capital assets	(2,135)	(3,684)
Net non-operating revenues	665,835	602,235
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	117,622	60,979
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
Capital grants and gifts	115,530	61,782
State of Nebraska capital appropriations	21,019	20,553
Additions to permanent endowments	647	700
Net other revenues, expenses, gains, or losses	137,196	83,035
INCREASE IN NET POSITION	254,818	144,014
NET POSITION:		
Net position, beginning of year	2,672,761	2,528,747
Net position, end of year	$2,927,579	$2,672,761

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(with summarized financial information for the year ended June 30, 2012)
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, 3, 4, and 5)

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES AND GAINS:					
Gifts, bequests, and life insurance proceeds	$ 976	$194,395	$ 41,370	$ 236,741	$ 164,964
Investment income	29,156	7,756	-	36,912	31,157
Change in value of split-interest agreements	-	564	-	564	1,629
Realized gain on investments, net	194	32,674	-	32,868	22,030
Unrealized gain (loss) on investments, net	24,333	37,440	-	61,773	(24,540)
	54,659	272,829	41,370	368,858	195,240
Reclassification due to change in donor intent	-	14,838	(14,838)	-	-
NET ASSETS RELEASED FROM RESTRICTIONS	168,880	(168,880)	-	-	-
Total revenues and gains	223,539	118,787	26,532	368,858	195,240
EXPENSES					
Payments for the benefit of the University:					
Academic support	44,760	-	-	44,760	38,410
Student assistance	21,440	-	-	21,440	17,960
Faculty assistance	4,712	-	-	4,712	4,645
Research	6,650	-	-	6,650	7,298
Museum, library, and fine arts	2,384	-	-	2,384	3,062
Campus and building improvements	93,929	-	-	93,929	51,348
Alumni associations	838	-	-	838	978
Deferred compensation	10	-	-	10	17
Total payments to benefit the University	174,723	-	-	174,723	123,718
Operating expenses:					
Salaries and benefits	14,226	-	-	14,226	14,481
Investment expense	5,466	-	-	5,466	6,801
General and administrative	3,836	-	-	3,836	4,431
Fund-raising, promotion, and development	2,410	-	-	2,410	2,966
Paid to beneficiaries	3,170	-	-	3,170	3,093
Depreciation	908	-	-	908	1,111
Total operating expenses	30,016	-	-	30,016	32,883
Total expenses	204,739	-	-	204,739	156,601
INCREASE (DECREASE) IN NET ASSETS	18,800	118,787	26,532	164,119	38,639
NET ASSETS (deficit) at beginning of year	(15,574)	738,242	743,604	1,466,272	1,427,633
NET ASSETS at end of year	$ 3,226	$857,029	$770,136	$ 1,630,391	$ 1,466,272

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	$ 418,456	$ 416,414
Tuition and fees	325,201	318,270
Sales and services of health care entities	196,012	187,563
Sales and services of auxiliary operations	164,084	145,569
Sales and services of auxiliary segments	103,141	99,980
Sales and services of educational activities	88,288	120,941
Other receipts	22,084	21,286
Student loans collected	5,694	5,691
Payments to employees	(1,167,338)	(1,134,793)
Payments to vendors	(499,988)	(536,159)
Scholarships paid to students	(70,155)	(67,819)
Student loans issued	(6,228)	(4,511)
Other payments	(248)	(225)
Net cash flows from operating activities	(420,997)	(427,793)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	498,635	486,312
Gifts	83,121	75,989
Federal grants	42,430	42,852
Private gifts and bequests for endowment use	647	699
Direct lending receipts	240,092	246,555
Direct lending payments	(240,092)	(246,555)
Net cash flows from non-capital financing activities	624,833	605,852
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Gifts	99,523	44,344
Proceeds from the issuance of bonds	51,895	143,655
State of Nebraska capital appropriations	20,523	20,735
Premium on issuance of bonds	5,148	14,124
Purchases of capital assets	(212,707)	(157,015)
Defeasance of bond obligations	-	(97,802)
Principal paid on bond obligations	(38,935)	(65,755)
Interest paid on bond obligations	(29,036)	(30,472)
Payments made on lease obligations	(2,117)	(1,621)
Payment of bond financial expense	(17)	(17)
Net cash flows from capital and related financing activities	(105,723)	(129,824)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	161,127	667,752
Interest on investments	33,414	29,555
Distributions received from joint venture	6,000	6,000
Purchases of investments	(173,330)	(657,220)
Net cash flows from investing activities	27,211	46,087
NET INCREASE IN CASH AND CASH EQUIVALENTS	125,324	94,322
CASH AND CASH EQUIVALENTS, beginning of year	847,595	753,273
CASH AND CASH EQUIVALENTS, end of year	$ 972,919	$ 847,595

See notes to financial statements.

(Continued)

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2013	2012
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET POSITION:		
Cash and cash equivalents (current)	$ 596,407	$ 525,068
Cash and cash equivalents - restricted (current)	162,194	127,830
Cash and cash equivalents held by trustee - restricted (current)	62,673	47,941
Cash and cash equivalents - restricted (non-current)	2,248	2,291
Cash and cash equivalents held by trustee - restricted (non-current)	149,397	144,465
Cash and cash equivalents, end of year	$ 972,919	$ 847,595
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (548,213)	$ (541,256)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	106,788	104,088
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(16,097)	19,277
Loans to students	(86)	1,457
Other current assets	(3,040)	1,217
Accounts payable	25,019	(7,323)
Accrued salaries, wages and compensated absences	4,302	(11,493)
Deferred revenues, credits and inflows	9,494	7,939
Health and other insurance claims	836	(1,699)
Net cash flows used in operating activities	$ (420,997)	$ (427,793)
NON-CASH TRANSACTIONS:		
Capital gifts and grants	$ 106	$ 5,514
Increase (decrease) in fair value of investments	13,428	(16,518)

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, 3, 4, and 5)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 164,119	$ 38,639
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	908	1,111
Realized loss on investments, net	(32,868)	(22,030)
Unrealized gain (loss) on investments, net	(61,773)	24,540
Contribution to permanently restricted endowment funds	(41,370)	(45,745)
Real and personal property contributions received	(701)	(1,678)
(Increase) Decrease in:		
Pledges receivable	(24,251)	(24,550)
Other receivables	(157)	(511)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	57	(49)
University of Nebraska benefits payable	(138)	241
Scholarships, research, fellowships, and professorships payable	(245)	(5,537)
Deferred annuities payable	142	(2,025)
Deferred revenue	(64)	(65)
Net cash provided by (used in) operating activities	3,659	(37,659)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of temporary investments	(124,297)	(166,961)
Proceeds from sale and maturity of temporary investments	92,617	132,077
Net decrease in student loans	(142)	(149)
Purchase of investments	(509,168)	(1,953,774)
Proceeds from sale and maturity of investments	500,227	1,989,313
Proceeds from the sale of property and equipment	8	269
Purchase of property and equipment	(243)	(426)
Net cash provided by (used in) investing activities	(40,998)	349
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution to permanently restricted endowment funds	31,273	41,635
Net cash provided by financing activities	31,273	41,635
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,066)	4,325
CASH AND CASH EQUIVALENTS, beginning of year	6,380	2,055
CASH AND CASH EQUIVALENTS, end of year	$ 314	$ 6,380

See notes to financial statements.

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). GASB requires the following components of the basic financial statements:

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

The University follows all GASB pronouncements.

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

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

- The University of Nebraska Facilities Corporation (UNFC) was organized to finance the construction, repair, and renovation of buildings and the acquisition of land and equipment and to hold them in trust for the University. UNFC is governed by a Board of Directors comprised of the Board of Regents.

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

- The University 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 Technology Development Corporation (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 four 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).

Recent Accounting Pronouncements – In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This guidance was effective and was adopted by the University of Nebraska for the year ended June 30, 2013. In the first period that this statement is applied, changes made to comply with this statement should be treated as an adjustment of prior periods, and financial statements presented for the periods should be restated.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of certified Public Accountants (AICPA) Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: FASB Statement and Interpretations; Accounting Principles Board Opinions; or; Accounting Research Bulletins of the AICPA Committee on Accounting Procedure (collectively referred to as the – FASB and AICPA pronouncements). This guidance was effective and was adopted by the University of Nebraska for the year ended June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement provides financial reporting guidance for presentation of certain deferred outflows of resources and deferred inflows of resources. This guidance was effective and adopted by the University of Nebraska for the year ended June 30, 2013.

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 resources are available. All significant revenues and expenses resulting from intra-University transactions have been eliminated.

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

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.

(Continued)

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 2013 and 2012 was $23,448 and $25,017, respectively, which is net of $5,087 and $2,288 that was capitalized.

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

Accrued Compensated Absences – Staff and certain University faculty earn 12 to 25 days of vacation annually. Vacation is no longer earned once an employee accrues 280 hours of unused vacation. Any unused 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 receive a cash payment of one-fourth of accrued sick leave upon retirement from the University. The University has recognized a liability for sick and annual leave earned but not yet taken by its faculty and staff. Certain University faculty and staff also earn four floating holidays each year, subject to a 32 hour cap, 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.

Service Concession Arrangement – The Board of Regents entered into a service concession arrangement with an outside vendor on July 1, 2011, which provides food service for the student residence halls and student union at the University of Nebraska-Kearney campus. Under the contract, the vendor will pay UNK a total of $9 million in support and capital improvements over a 10-year period for the right to provide food service to the campus. In exchange, UNK assigned food service facilities to the vendor for use in providing food service on campus. The University retained ownership of the food service facilities and use will revert to the University at the end of the contract period. The capital improvements to the food service facilities are reported as a capital asset with a carrying value of $2,579 at June 30, 2013. The present value of the remaining accounts receivable due from the vendor at June 30, 2013 is $3,836. These assets are offset by a deferred inflow of resources of $6,864.

The Board of Regents entered into a service concession arrangement with an outside vendor on March 5, 2012 to manage and operate a bookstore at the University of Nebraska at Kearney campus. Under the contract, the vendor will pay UNK a total of $1.9 million in support and capital improvements over a 7 year period in exchange for the right to provide text book and other merchandise sales on the UNK campus. The University retained ownership of the facility and will recover full use at the end of the contract period. The accounts receivable due from the vendor at June 30, 2013 is $1,399 and is offset by a deferred inflow of resources of $1,550, both discounted to present value.

The Board of Regents entered into a service concession arrangement with an outside vendor on April 18, 2008 to manage and operate a bookstore at the University of Nebraska-Lincoln campus. Under the contract, the vendor will pay UNL a total of $16.2 million in support over a 10-year period in exchange for the right to provide text book and other merchandise sales on the UNL campus. The vendor will contribute up to an additional $580 in capital improvements. The University retained ownership of the facility and will recover full use at the end of the contract period. The accounts receivable due from the vendor at June 30, 2013 is $7,453 and is offset by a deferred inflow of resources of $7,453, both discounted to present value.

The Board of Regents entered into a service concession arrangement with an outside vendor on July 1, 2011 to operate a food service outlet in the student union at the University of Nebraska-Lincoln campus. Under the contract, the vendor will pay UNL a total of $720 over a 5-year period in exchange for the right to provide fast food service on the UNL campus. The University retained ownership of the facility and will recover full use at the end of the contract period. The accounts receivable due from the vendor at June 30, 2013 is $274 and is offset by a deferred inflow of resources of $349, both discounted to present value.

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, 2013 and 2012, Federal grants and contracts includes Pell grant awards amounting to $42,356 and $42,901, 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 $240,148 and $246,555 at June 30, 2013 and 2012, respectively, are treated as agency funds and not included in revenues and expenses.

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

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

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 2012 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 $1,487 (book balance of approximately $1,253) at June 30, 2013, with approximately $1,400 covered by Federal depository insurance. 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. Of the remaining bank balance at June 30, 2013 and 2012, approximately $74 and $46 was collateralized with securities held by the pledging financial institution, but not in the University's name, leaving $13 in uninsured and uncollateralized bank balances at June 30, 2013.

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.

(Thousands)

Investments as of June 30, 2013:

	Fair Value	Investment Maturities (in years) Less Than 1	1-5		6-10		More Than 10
Investment type:							
Debt securities:							
Certificates of Deposit	$ 252	$ 252	$ -		$ -		$ -
U.S. treasuries	9,083	1,034	6,268		670		1,111
U.S. agencies	99,587	8,520	26,300	(1)	2,703	(2)	62,064
State governments	2,901	-	2,843		-		58
Corporate debt	78,580	4,084	37,517	(3)	31,233	(4)	5,746
International bonds	8,746	2,384	1,850		1,847		2,665
	199,149	$ 16,274	$ 74,778		$ 36,453		$ 71,644
Other investments:							
Equity securities - domestic	135,719						
Equity securities - international	63,646						
Mutual funds	68,016						
Real estate mutual funds	9,196						
Real estate held for investment purposes	932						
Money market funds	5,830						
Total	$ 482,488						

(1) This amount includes $5,758 of bonds which are callable in less than 2 years.
(2) This amount includes $787 of bonds which are callable in less than 2 years.
(3) This amount includes $112 of bonds which are callable in less than 4 years and $1,270 of bonds which are callable in less than 5 years.
(4) This amount includes $1,518 of bonds which are callable in less than 2 years, $1,087 of bonds which are callable in less than 8 years, and $4,680 of bonds which are callable in less than 10 years.

(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
Municipal	2,517	1,004	1,513 (3)	-	-
Corporate debt	1,088	-	-	1,088	-
International bonds	61,419	4,960	28,622	21,875 (4)	5,962
Repurchase agreements	9,638	1,262	1,147	2,458	4,771
	202,906	$ 25,528	$ 78,955	$ 35,210	$ 63,213
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	$ 456,733				

(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.

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:

(Thousands)

	2013					
		Quality Ratings				
	Fair Value	Aaa	AA	A	Baa	Unrated
Investment type:						
Debt securities:						
Certificates of Deposit	$ 252	$ -	$ 252	$ -	$ -	$ -
U.S. treasuries	9,083	9,083	-	-	-	-
U.S. agencies	99,587	99,587	-	-	-	-
State governments	2,901	-	-	2,901	-	-
Corporate debt	78,580	9,144	17,465	47,490	4,073	408
International bonds	8,746	757	5,112	1,323	633	921
Other investments:						
Equity securities - domestic	135,719	-	-	-	-	135,719
Equity securities - international	63,646	-	-	-	-	63,646
Mutual funds	68,016	-	-	-	-	68,016
Real estate mutual funds	9,196	-	-	-	-	9,196
Real estate held for investment purposes	932	-	-	-	-	932
Money market funds	5,830	-	-	-	-	5,830
	$ 482,488	$ 118,571	$ 22,829	$ 51,714	$ 4,706	$ 284,668

	2012					
		Quality Ratings				
	Fair Value	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
	$ 456,733	$ 135,276	$ 15,401	$ 44,012	$ 6,073	$ 255,971

(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:

	Concentration	
	2013	**2012**
Federal National Mortgage Association	10%	9%
Federal Home Loan Bank	2%	5%
Federal Home Loan Mortgage Association	7%	5%
U.S. Treasuries	2%	5%

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.

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.

	Foreign Currency	
	2013	**2012**
Australian Dollar	$ 1,458	$ 1,670
British Pound	2,022	2,301
EMU Euro	1,466	1,607
South Korea Won	482	534
Malaysian Ringgit	481	577
Mexican Peso	1,555	1,129
New Zealand Dollar	454	594
Poland Zloty	466	770
South African Rand	362	456
Totals	$ 8,746	$ 9,638

(Continued)

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 $13,609 and $13,143 at June 30, 2013 and 2012, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately $1,557 and $1,460 at June 30, 2013 and 2012, 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 position. 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 position 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, 2013 and 2012 totaling $20,734 and $12,838, 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 2013 and 2012.

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

In conjunction with the Joint Operating Agreement, the University entered into an agreement to lease the former hospital building to NMC that extends through 2037. The lease agreement 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 $8,982 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, 2013 and 2012, the University received approximately $26,310 and $25,870, respectively, of support in connection with the agreement.

(Continued)

(Thousands)

F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2013 and 2012 is as follows:

	2013			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	$ 73,170	$ 11,631	$ 176	$ 84,625
Construction work in progress	118,823	202,014	92,956	227,881
Total capital assets not being depreciated	191,993	213,645	93,132	312,506
Capital assets, being depreciated:				
Land improvements	159,630	25,507	1,560	183,577
Leasehold improvements	13,209	5,022	-	18,231
Buildings	1,929,341	57,183	44,289	1,942,235
Equipment	388,388	36,394	11,338	413,444
Total capital assets, being depreciated	2,490,568	124,106	57,187	2,557,487
Less accumulated depreciation for:				
Land improvements	54,167	6,577	895	59,849
Leasehold improvements	3,847	600	-	4,447
Buildings	516,924	58,490	37,717	537,697
Equipment	251,750	41,121	10,075	282,796
Total accumulated depreciation other assets	826,688	106,788	48,687	884,789
Capital assets, net	$ 1,855,873	$ 230,963	$ 101,632	$ 1,985,204

(Continued)

(Thousands)

	2012			
	Beginning Balance	Additions	Disposals	Ending Balance
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	228,386	126,616	(163,009)	191,993
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	2,331,142	200,384	(40,958)	2,490,568
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	40,517	(16,630)	251,750
Total accumulated depreciation other assets	758,760	104,088	(36,160)	826,688
Capital assets, net	$1,800,768	$222,912	$ (167,807)	$1,855,873

G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2013	$ 71,799	$ 51,814	$ (49,377)	$ 74,236	$ 56,631
2012	$ 70,989	$ 53,584	$ (52,774)	$ 71,799	$ 54,413

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2013	$ 671,305	$ 51,895	$ (38,935)	$ 684,265	$ 52,680
2012	$ 684,785	$ 143,655	$ (157,135)	$ 671,305	$ 32,360

(Continued)

(Thousands)

Bond obligations payable at June 30, 2013 and 2012 consist of the following:

	Interest	Annual	Principal Amount Outstanding	
Obligations under the master trust indenture:	**Rate**	**Installment**	**2013**	**2012**
University of Nebraska-Lincoln:				
Student Fees and Facilities:				
Series 2008A, revenue bonds	3.25 - 5.00%	1,275 - 2,360	$ 27,810	$ 29,050
Series 2009A, revenue bonds	2.00 - 5.25%	940 - 2,990	51,055	51,720
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	63,475
Series 2012, refunding bonds	1.00 - 5.00%	1,220 - 4,780	80,180	80,180
Series 2012B, revenue bonds	1.00 - 5.00%	1,220 - 3,095	20,690	-
Lincoln Parking Project:				
Series 2003, revenue refunding	3.60 - 4.50%	680 - 1,615	3,000	3,655
Series 2005, revenue and refunding	3.75 - 4.50%	425 - 3,825	16,790	18,220
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	-	-	-	1,180
Student HPER Project Series 2008:				
Revenue bonds	3.15 - 5.00%	920 - 2,700	40,310	41,205
Student Housing and Parking:				
Series 2003, revenue bonds	4.00 - 5.00%	390 - 945	12,390	12,765
Series 2007, revenue bonds	4.50 - 5.00%	630 - 2,395	26,975	27,580
Series 2010A, revenue bonds	1.75- 4.83%	695 - 1,175	15,200	15,885
Series 2010B, revenue bonds	2.00 - 5.00%	380 - 1,060	16,970	17,345
University of Nebraska Medical Center:				
Student Housing revenue bonds				
Series 2003	3.70 - 5.00%	140 - 330	4,345	4,480
University of Nebraska at Kearney:				
Student Fees and Facilities:				
Series 2005 revenue refunding	3.65 - 4.10%	370 - 1,080	3,530	3,890
Series 2006 revenue bonds	4.38 - 5.00%	550 - 1,385	20,320	20,850
Total obligations under the master trust indenture			425,280	413,720
Other University obligations:				
University of Nebraska-Lincoln:				
Athletics:				
2004A, revenue refunding	4.35 - 5.00%	1,910 - 3,250	30,245	32,080
Total University obligations			455,525	445,800
Obligations of blended entities:				
University of Nebraska Facilities Corporation:				
Series 2013 (UNMC Cancer Center)	4.00%	3,010 - 8,375	31,205	-
Series 2011 (Eye Institute)	2.00 - 4.59%	3,000 - 14,740	17,740	17,740
Series 2011 (NCTA Education Center)	1.75 - 5.50%	560 - 1,645	9,835	10,390
Series 2010 (OPPD Exchange Project)	2.00 - 3.00%	1,535 - 1,540	6,150	7,690
Series 2009 (LB605)	2.15 - 4.66%	6,670 - 7,530	35,170	41,850
Series 2009 (Health Professions Futures)	4.20%	18,235	18,235	18,935
Series 2007 (Research Center)	5.00%	13,790	13,790	13,790
Series 2006 (Sorrell Center)	-	-	-	9,275
Series 2006 (LB605)	5.00%	8,205 - 11,550	78,370	86,185
Series 2004 (Library Storage Project)	4.00 - 5.00%	140 - 565	2,470	2,605
Series 2003 (Alexander Building Project)	4.10 - 5.00%	130 - 205	1,800	1,925
Total University of Nebraska Facilities Corporation			214,765	210,385
Nebraska Utility Corporation (NUCorp):				
Series 2010 revenue bonds	1.00 - 5.00%	1,220 - 1,605	13,975	15,120
Total bond obligations payable			$ 684,265	$ 671,305

(Continued)

(Thousands)

Annual maturities subject to mandatory redemption at June 30, 2013, are as follows:

	Total University		UNFC		NUCorp		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 15,840	$ 20,497	$ 35,620	$ 8,409	$ 1,220	$ 593	$ 52,680	$ 29,499
2015	16,595	19,979	23,975	7,760	1,230	578	41,800	28,317
2016	17,850	19,338	24,785	6,789	1,250	537	43,885	26,664
2017	17,960	18,621	27,845	5,676	1,225	475	47,030	24,772
2018	18,590	17,932	52,820	4,445	1,290	412	72,700	22,789
2019-2023	101,155	77,331	45,260	4,582	7,760	1,007	154,175	82,920
2024-2028	93,255	54,141	3,665	515	-	-	96,920	54,656
2029-2033	79,215	33,141	535	162	-	-	79,750	33,303
2034-2038	64,940	16,478	260	22	-	-	65,200	16,500
2039-2043	30,125	3,035	-	-	-	-	30,125	3,035
Total	$455,525	$280,493	$214,765	$38,360	$13,975	$ 3,602	$684,265	$322,455

At June 30, 2013 and 2012, the trustees for these bond funds held cash and investments in the amount of approximately $248,081 and $236,129, respectively, which is reflected as cash and cash equivalents held by trustee – restricted and investments held by trustee – restricted on the statements of net position.

Master Trust Indenture – The Board of Regents entered into a Master Trust Indenture dated as of June 1, 1995, (as amended and supplemented from time to time, hereinafter 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 Master Trust Indenture was created for the purpose of achieving lower borrowing costs through sharing accumulated excess revenues and earnings derived from such facilities. As of June 30, 2013, the members of the Obligated Group are (a) the student housing, student unions, and student health facilities on the University of Nebraska - Lincoln campus (UNL Student Fees and Facilities), (b) the parking facilities on the University of Nebraska - Lincoln campus (UNL Parking); (c) the student center and HPER facility at the University of Nebraska at Omaha (UNO Student Center and HPER); (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 at Kearney campus (UNK Student Fees and Facilities). The accumulated surplus revenues, fees, and other payments of the members have been jointly pledged to the payment of revenue bonds issued with respect to such facilities. Other facilities will be added to the Obligated Group and the revenues, fees, and other payments derived from such facilities will be pledged under the Indenture in the future as circumstances permit.

Pledged revenues are defined in the Obligated Group 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 any other reserve, replacement, or contingency fund and any surplus fund held for and on behalf of such members under a Related Bond Resolution (as defined in the Obligated Group).

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 of Nebraska and no tax shall ever be levied to raise the funds for the principal payment thereof or the interest or premium thereon, and 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, donor gifts, and UNL and UNMC lease payments. The Board has pledged certain cash balances toward debt service on the bonds should sufficient revenues not be available. Pledged cash balances were $496 and $450 at June 30, 2013 and 2012 respectively.

UNMC Cancer Research Center (“Cancer Center Project ”) - In 2013, the UNFC authorized the issuance of $31,205 of Series 2013 Bonds, dated June 11, 2013.

The Cancer Center consists of the construction of a Cancer Research Center tower at UNMC at a total estimated cost of $110,000. The bond proceeds will provide interim financing for approximately $31,205 of donor pledge payments. The remainder of the construction costs will be funded by a State of Nebraska capital appropriation of $50,000 and other University sources.

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 Bonds are not redeemable prior to maturity. The Cancer Center Project provides that if, at any time, the assigned pledge receipts are insufficient to pay principal and interest of the Series 2013 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.

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.

(Continued)

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

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

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

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

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 in 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 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 $36,000 of donor pledged payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately $39,000.

(Continued)

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

The bonds are not redeemable prior to maturity. The 2009 Project provides that if, at any time, the assigned pledged receipts are insufficient to pay principal and interest of the Series 2009 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

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

The 2007 Project is the construction of the Research Center of Excellence II. The bond proceeds will be used to provide interim financing for approximately $22,000 of donor pledge payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately $74,000.

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.

Lease Rental Revenue Bonds ("The Sorrell Center Project") – In 2013, the UNFC authorized the call of all outstanding Sorrell Center Bonds, Series 2006, maturing on or after April 14, 2014, for redemption and payment prior to maturity on April 15, 2013 (the Called Bonds). The principal of the Called Bonds of $6,575 and the scheduled bond repayment of $2,700 on April 15, 2013, repaid the Series 2006 Bonds in full. The bond call reduced future interest payments by $581.

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

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

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

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

The Library Storage and Retrieval Facility provides a climate-controlled environment for the library's print volumes and other documents. The strictly controlled temperature, humidity, and air quality will minimize the deterioration of the books and other documents.

Principal and interest payments will come from lease payments received from UNL. Bonds maturing after July 15, 2014, are redeemable at par plus accrued interest. The 2004 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2004 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

Series 2003 Bonds – Alexander Building Project – In 2003, the UNFC authorized the issuance of $2,935 of Series 2003 Bonds, dated March 6, 2003.

The 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.

Nebraska Utility Corporation

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.

The 2010 bonds maturing on or after January 1, 2022 are eligible for redemption at the option of NUCorp after January 1, 2021. The redemption price is 100%.

Bond Financing

On September 12, 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 were used to pay the cost of acquiring, constructing, equipping, and furnishing facilities for health, physical education, and recreation facilities at the University of Nebraska-Lincoln campus.

The aggregate amount of debt considered extinguished (defeased) at June 30, 2013 that remains outstanding is $57,725.

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, 2013 and 2012, the University, UNFC, and NUCorp are in compliance with these requirements.

(Thousands)

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, 2013 and 2012, $463 and $2,461, respectively, are leases with the Foundation.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2013	$ 3,442	$ 216	$ 2,333	$ 1,325	$ 581
2012	$ 5,063	$ -	$ 1,621	$ 3,442	$ 622

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

	Land	Buildings and Properties	Equipment	Total
2014	$ 245	$ 175	$ 199	$ 619
2015	245	175	64	484
2016	-	163	4	167
2017	-	24	-	24
2018	-	24	-	24
2019-2023	-	106	-	106
	490	667	267	1,424
Less interest and executory costs	27	58	14	99
	$ 463	$ 609	$ 253	$ 1,325

Capital assets held under capital lease obligations at June 30, 2013, are as follows:

	Cost	Accumulated Depreciation	Net
Land	$ 1,478	$ -	$ 1,478
Buildings	2,976	1,008	1,968
Equipment	583	356	227
	$ 5,037	$ 1,364	$ 3,673

(Continued)

(Thousands)

J. HEALTH AND OTHER INSURANCE CLAIMS

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

	Clinicians Self-Insurance	General Liability	Group Health and Dental	Total
Claim reserve, July 1, 2011	$ 4,906	$ 1,457	$ 7,798	$ 14,161
Incurred claims	340	777	123,602	124,719
Payments on claims	(910)	(1,065)	(124,444)	(126,419)
Claim reserve, June 30, 2012	4,336	1,169	6,956	12,461
Incurred claims	600	5,192	123,383	129,175
Payments on claims	(895)	(3,444)	(124,001)	(128,340)
Claim reserve, June 30, 2013	$ 4,041	$ 2,917	$ 6,338	$ 13,296

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, 2013 and 2012, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately $152,633 and $143,618, 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 position.

(Continued)

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 2013 and 2012 was approximately $872,530 and $858,813, respectively, of which approximately $662,453 and $643,630 was covered by the plan. The University's contribution during 2013 and 2012 was approximately $51,675, or 7.80%, and $50,216, or 7.80%, of covered payroll, respectively, and the faculty and staff's contribution was approximately $34,707, or 5.24%, and $33,743, or 5.24%, of covered payroll, respectively.

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

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 $11,030 and $11,077 for the years ended June 30, 2013 and 2012, 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 2013 and 2012 for the health insurance liability under current individual tenure buyout arrangements was $107 and $48, respectively. The expense incurred for 2013 and 2012 health insurance premium increases under all tenure buyout arrangements was $0 and $6, respectively. The total termination benefit obligation at June 30, 2013 and 2012 was $121 and $277, respectively.

L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of facilities that are estimated to cost approximately $597,975. As of June 30, 2013, the approximate remaining costs to complete these facilities were $341,633, which will be financed as follows:

(Thousands)

Bond funds	$ 103,027
Federal funds	2,405
University funds	27,639
State capital appropriations	73,213
Private gifts, grants, and contracts	135,349
	$ 341,633

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 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, 2013 and 2012, NMC purchased approximately $67,653 and $64,877 of goods and services from UNMC. In addition, during 2013 and 2012, UNMC paid NMC $9,638 and $8,723, respectively, for support services provided by NMC.

(Thousands)

N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2013:

	Compensation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communications	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 422,200	$ 36,175	$ 8,863	$ 1,992	$ 8	$ 2,666	$ 3,077	$ -	$ 474,981
Research	183,546	58,534	49,286	6,737	167	1,521	1,016	-	300,807
Public service	72,109	15,737	18,350	652	382	1,035	157	-	108,422
Academic support	90,621	27,642	(489)	1,880	37	1,425	244	-	121,360
Student services	22,254	5,895	547	139	-	300	438	-	29,573
Institutional support	80,119	15,692	8,307	1,939	69	1,448	132	-	107,706
Operation and maintenance of plant	36,615	4,128	7,926	28,799	33,154	565	37	-	111,224
Healthcare entities	167,741	14,223	16,999	2,386	160	942	1,124	-	203,575
Scholarships and fellowships	3,031	1,136	2,576	23	-	1	60,876	-	67,643
Auxiliary operations	96,344	89,668	21,898	12,284	1,413	5,015	3,054	-	229,676
Depreciation	-	-	-	-	-	-	-	106,788	106,788
Total expenses	$1,174,580	$ 268,830	$ 134,263	$ 56,831	$ 35,390	$ 14,918	$ 70,155	$ 106,788	$ 1,861,755

(Continued)

(Thousands)

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	$ 30,258	$ 11,891	$ 3,501	$ 6	$ 2,592	$ 3,358	$ -	$ 449,907
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	$ 1,126,038	$ 260,109	$ 123,414	$ 61,905	$ 34,984	$ 14,377	$ 67,820	$ 104,088	$ 1,792,735

(Continued)

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, Series 2012, and Series 2012B – 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 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.

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

	June 30, 2013	June 30, 2012
Condensed Statements of Net Position		
Assets:		
Current assets	$ 72,060	$ 58,245
Non-current assets:		
Capital assets	441,098	404,715
Other non-current assets	131,951	146,954
Total assets	645,109	609,914
Liabilities:		
Current liabilities	45,616	31,916
Non-current liabilities	431,120	423,049
Total liabilities	476,736	454,965
Deferred Inflows of Resources:		
Deferred service concession arrangement receipts	8,414	9,233
Net Position:		
Invested in capital assets, net of related debt	35,794	27,481
Restricted:		
Expendable:		
Plant construction	10,476	8,471
Debt service	95,401	92,821
Unrestricted	18,288	16,943
Total net position	$ 159,959	$ 145,716

	Years Ended June 30, 2013	Years Ended June 30, 2012
Condensed Statements of Revenues, Expenses, and Changes in Net Position		
Operating revenues	$ 116,289	$ 113,062
Operating expenses:		
Depreciation	(13,776)	(13,648)
Other operating expenses	(74,449)	(72,835)
Operating income	28,064	26,579
Non-operating expense	(13,821)	(7,908)
Change in net position	14,243	18,671
Net position, beginning of year	145,716	127,045
Net position, end of year	$ 159,959	$ 145,716

(Continued)

(Thousands)

	Years Ended June 30, 2013	Years Ended June 30, 2012
Condensed Statements of Cash Flows		
Net cash flows from operating activities	$ 43,125	$ 45,266
Net cash flows from capital and related financing activities	(42,570)	18,043
Net cash flows from investing activities	3,731	7,448
Net change in cash and cash equivalents	4,286	70,757
Cash and cash equivalents, beginning of year	156,822	86,065
Cash and cash equivalents, end of year	$ 161,108	$ 156,822

P. SUBSEQUENT EVENTS

On July 11, 2013, the University issued $8,615 of University of Nebraska-Lincoln Parking Revenue Refunding Bonds, Series 2013. The proceeds, together with other available funds from the UNL Parking system, will be used to pay the costs of acquiring a parking garage condominium and to provide for the payment and redemption of $3,000 outstanding Parking Revenue Refunding Bonds, Series 2003. The parking garage condominium with 1,270 parking spaces is located on the University of Nebraska-Lincoln campus.

On November 6, 2013, the University issued $53,930 of bonds by UNFC. The proceeds will be utilized to help fund the construction of the UNO/Community Facility Project, which is a 7,500 seat multi-purpose arena.

On September 20, 2013, the Board of Regents approved the issuance of not to exceed $5,500 principal amount of taxable Bonds, Series 2013 by Nebraska Utility Corporation. Proceeds of the bonds will be utilized to construct a centralized renewable energy system at the Nebraska Innovation Campus. These bonds have not yet been issued.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 13, 2013, 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.

(Continued)

Based on the Foundation's audited financial statements as of June 30, 2013 and 2012, the Foundation's net assets (including unrealized gains) totaled $1,630,391 and $1,466,272, respectively.

During the years ended June 30, 2013 and 2012, the Foundation contributed $80 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 $94 million and $51 million during 2013 and 2012, 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.

R. COMPONENT UNIT DISCLOSURES

(1) Summary of Significant Accounting Policies

(a) Nature of the Entity and Principles of Consolidation

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

(b) Basis of Accounting and Presentation

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

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

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

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

(c) Cash and Cash Equivalents

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

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

(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 marketable securities are reported at fair value. Investments in securities traded on a national securities exchange are valued at the latest quoted market prices. Corporate bonds are valued at market quotations for securities that have quoted prices in active markets, valued at estimated fair values obtained from a pricing service using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads, and measures of volatility. For other fixed income securities, the fair value is determined using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. The Foundation obtained one price for each instrument and did not adjust any of these prices.

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 fair value. These investments in limited partnerships are generally valued based upon the most recent net asset value or capital account information available from the general partner of the limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value.

Investments in closely held stock are estimated based on independent appraisals and information provided by the respective companies.

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

Temporary investments comprise short-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, other investments 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 by 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 $298 million and $270 million at June 30, 2013 and 2012 and were held on behalf of the University of Nebraska and other related entities.

(h) Fair Value of Financial Instruments

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

The Foundation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Foundation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the repotting 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 2013 and 2012, management determined that there are no income tax positions requiting 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.

(Continued)

(2) Fair Value Measurements

The Foundation utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. 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. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The Foundation maximized the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information for external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

(Thousands)

The tables below present the balances of assets measured at June 30, 2013 and 2012 at fair value on a recurring basis.

	2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Certificates of deposit, savings, and money funds	$ 23,576	23,576	–	–
U.S. government securities and sovereign debt	34,952	–	34,952	–
State government securities	804	–	804	–
Local government securities	1,079	–	1,079	–
International bonds	28,279	–	28,279	–
Corporate bonds	63,984	63,984	–	–
Common stock	374,396	353,238	–	21,158
Mutual funds – equity	118,817	118,817	–	–
Mutual funds – fixed income	138,354	138,354	–	–
Real estate funds	4,780	–	–	4,780
Limited partnerships	530,660	–	511,168	19,492
Preferred stock	1,411	–	1,411	–
Temporary investments:				
U.S. Treasuries	193,864	–	193,864	–
Certificates of deposit	6,029	–	6,029	–
State government securities	23,345	–	23,345	–
Local government securities	38,008	–	38,008	–
Corporate bonds	90,611	90,611	–	–
Total	$ 1,672,949	788,580	838,939	45,430

(Thousands)

	2012			
	Total	**Level 1**	**Level 2**	**Level 3**
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	$ 1,511,306	922,555	547,617	41,134

Certain investments in limited partnerships and real estate funds 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.

(Continued)

(Thousands)

The policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. There were no transfers between levels during the year ended June 30, 2013. During 2012, $19,184 of investments were transferred between Level 2 and Level 3. The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Balance, June 30, 2011	$ 20,369
Transfers and reclassifications	19,184
Net realized gains	2,261
Net unrealized losses	(876)
Interest, dividends, and other income/losses	(60)
Investment management fees	(522)
Purchases	3,546
Distributions	(2,768)
Balance, June 30, 2012	41,134
Transfers and reclassifications	–
Net realized gains	2,097
Net unrealized gains	2,259
Interest, dividends, and other income/losses	(1,199)
Investment management fees	(497)
Purchases	4,705
Distributions	(3,062)
Balance, June 30, 2013	$ 45,430

(Continued)

(Thousands)

(3) Investments

Investments consist of the following at June 30, 2013 and 2012:

	2013	2012
Investments stated at fair value:		
Certificates of deposits, savings, and money funds	$ 23,576	$ 25,133
U.S. government securities and sovereign debt	34,952	9,629
State government securities	804	1,589
Local government securities	1,079	1,475
International bonds	28,279	31,241
Corporate bonds	63,984	97,147
Common stock	374,396	301,109
Mutual funds – equity	118,817	68,522
Mutual funds – fixed income	138,354	159,257
Real estate funds	4,780	5,379
Limited partnerships	530,660	494,240
Preferred stock	1,411	167
Investments stated at other than fair value:		
Real estate	53,727	47,828
Real estate mortgage and contracts	2,418	3,075
Other	4,132	3,862
Cash value of life insurance	2,683	2,755
Annuity contracts	158	158
Total	$ 1,384,210	$ 1,252,566

	2013	2012
Temporary investments stated at fair value:		
U.S. Treasuries	$ 193,864	$ 244,290
Certificates of deposit	6,029	6,329
State government securities	23,345	4,754
Local government securities	38,008	14,765
Corporate bonds	90,611	46,280
Temporary investments stated at other than fair value:		
Real estate	1,275	4,892
Total	$ 353,132	$ 321,310

(Continued)

(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, 2013 and 2012:

	2013			
	Fair value	Unfunded Commitments	* Redemption frequency (if currently eligible)	Redemption notice period
Domestic equities	$ 162,680	-	m/q	1-90 days
International equities	194,186	-	m/q	1-90 days
Commodities	25,521	-	m/q	1-90 days
Private equity/venture capital	12,895	18,764	N/A	N/A
Real asset funds	7,790	12,248	N/A	N/A
Hedge funds:				
Domestic long/short	30,001	-	q/sa/a	90-360 days
Global long/short	29,336	-	q/sa/a	90-360 days
Multiple strategies	46,426	-	q/sa/a	90-360 days
Credit strategies	26,605	-	q/sa/a	90-360 days
	$ 535,440	31,012		

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

	2012			
	Fair value	Unfunded Commitments	* Redemption frequency (if currently eligible)	Redemption notice period
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
	$ 499,619	14,282		

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

(Continued)

(Thousands)

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

(4) Pledges Receivable

Pledges 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, 2013 and 2012:

	2013	2012
Gross amount due in:		
One year or less	$ 65,932	67,409
One to five years	151,373	118,607
More than five years	30,979	21,073
	248,284	207,089
Less discount to present value	27,534	21,749
	220,750	185,340
Less allowance for doubtful accounts	6,622	5,560
	$ 214,128	179,780

The discount will be recognized as contribution income in years 2014 through 2041.

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, 2013 and 2012 are as follows:

	2013	2012
Property	$ 1,692	1,692
Leasehold improvements	3,300	3,292
Aircraft	4,177	4,177
Automobiles	307	265
Furniture, equipment, and software	7,285	7,173
	16,761	16,599
Less accumulated depreciation	11,176	10,531
Net Property and equipment	$ 5,585	6,068

(Thousands)

(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, 2013 and 2012 are $20,966 and $20,824, 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, 2013 and 2012 are as follows:

	2013	2012
Temporarily restricted – charitable trusts and annuities	$ 28,564	28,319
Temporarily restricted – available for specific purposes	828,465	709,923
Permanently restricted – endowment	770,136	743,604
	$ 1,627,165	1,481,846

The Foundation had unrestricted net assets of $3,226 and $(15,574) at the end of 2013 and 2012, respectively. Net assets of $168,880 and $123,553 were released from donor restrictions during 2013 and 2012 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(8) Endowments

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

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

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

(Continued)

(Thousands)

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, 2013 and 2012 is as follows:

	2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (26,793)	318,688	770,136	1,062,031

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (42,588)	260,415	743,604	961,431

(Thousands)

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	$ (42,588)	260,415	743,604	961,431
Contributions	-	7,236	41,370	48,606
Investment income, net of expenses	-	8,098	-	8,098
Net appreciation	15,795	71,763	-	87,558
Amounts appropriated for expenditure	-	(43,662)	-	(43,662)
Reclassification due to change in donor intent	-	14,838	(14,838)	-
Endowment net assets, end of year	(26,793)	318,688	770,136	1,062,031

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	$ (17,449)	290,602	704,127	977,280
Contributions	-	5,901	45,745	51,646
Investment income, net of expenses	-	5,139	-	5,139
Net appreciation	(25,139)	1,516	-	(23,623)
Amounts appropriated for expenditure	-	(42,743)	-	(42,743)
Reclassification due to change in donor intent	-	-	(6,268)	(6,268)
Endowment net assets, end of year	$ (42,588)	260,415	743,604	961,431

(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.

(Thousands)

(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 finds, 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 was $577 through calendar year 2012, with an increase to $52 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 $419 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 per month with an increase to $4 effective November 1, 2011. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2013 are as follows:

2014	$	1,075
2015		1,057
2016		1,042
2017		1,042
2018		523

(10) Retirement Plan

The Foundation sponsors a retirement plan that covers employees of the Foundation 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

(Continued)

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 reenroll in the lower tier, he/she will be subject to the employer contribution rate in effect at that time. The Foundation contributions to the plans for the years ended June 30, 2013 and 2012 were $764 and $774, 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 24, 2013, the date the consolidated financial statements were available to be issued.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

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*

Independent Auditors' Report

Board of Regents of the University of Nebraska
Lincoln, Nebraska:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who 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 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, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in our separately issued management letter that we consider to be a significant deficiency: Comment Number 1 (SAP Transactions-Lack of Segregation of Duties).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its cosmpliance 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.*

University's Response to Finding

The University's response to the finding identified in our audit is described in our separately issued management letter. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to management of the University in a separate letter dated December 13, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska
December 13, 2013

Mark Avery, CPA
Audit Manager