

# ***The University of Nebraska***

*Basic Financial Statements and Additional Information  
for the Years Ended June 30, 2018 and 2017  
and Independent Auditors' Reports*

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**Modification of this document may change the accuracy of the original  
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**Issued on December 17, 2018**

# THE UNIVERSITY OF NEBRASKA

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## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### INDEPENDENT AUDITORS' REPORT

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

#### *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, 2018 and 2017, 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 University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, 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 22 percent, 5 percent, and 13 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2018, and 22 percent, 4 percent, and 12 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2017. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation were not audited in accordance with *Government Auditing Standards*.

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, 2018 and 2017, and the respective changes in financial position, and, where applicable, 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 5 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, 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 solely 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 the effectiveness of the University's 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.



Lincoln, Nebraska  
December 17, 2018

Mark Avery, CPA  
Assistant Deputy Auditor



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### **Independent Auditors' Report**

The Board of Directors  
University of Nebraska Foundation:

We have audited the accompanying consolidated financial statements of the University of Nebraska Foundation (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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 auditor considers 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, 2018 and 2017, 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 28, 2018

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# **THE UNIVERSITY OF NEBRASKA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)**

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### **Introduction**

This discussion and analysis is designed to provide an overview of the financial position and activities of the University of Nebraska (the University) for the years ended June 30, 2018 and 2017. 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 six blended entities, those being the University of Nebraska Facilities Corporation (UNFC), the UNMC Science Research Fund, the University Dental Associates, UNeHealth, 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 and GASB Statement No. 61, the University of Nebraska Foundation's (the Foundation) financial statements are discretely presented with the University's financial statements. Management's discussion and analysis relates only to the University and does not include any overview of the financial position and activities of the Foundation. References to the Foundation within the analysis relate only to specific transactions with the University.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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### Student Enrollment – Headcount

Campus	Fiscal Year				
	2014	2015	2016	2017	2018
UNL	24,745	25,390	25,772	26,239	26,396
UNMC	3,681	3,696	3,790	3,862	3,908
UNO	15,227	15,227	15,526	15,627	15,731
UNK	7,052	6,902	6,747	6,788	6,644
Total	50,705	51,215	51,835	52,516	52,679

The fall semester (fiscal 2018) headcount enrollment was 52,679 students on the four campuses, showing continued upward movement in enrollment figures across the University system. 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 13,081, representing 25% of the student body, an important part of the University's commitment to its increasing prominence as a major research institution.

### Financial and Operating Highlights

- **Growth in Net Position.** Overall total net position of the University grew by \$154 million or 4% and is attributable to several factors. Invested in capital assets increased by \$76 million. Sales and services of auxiliary operations increased by \$34 million, primarily due to increased athletic revenue sharing as UNL became a full member of the Big Ten Conference. The fair value of permanent endowments increased \$9 million, while plant construction also increased \$18 million. Unrestricted net position remains strong at \$674 million, an increase of \$23 million over the prior year.
- **New Capital Construction.** Investments in capital projects followed University priorities, with many of these projects coming courtesy of private support. 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.
  - Construction continued for the UNMC Interprofessional Experiential Center for Enduring Learning (iEXCEL). Total budget for the iEXCEL building is about \$122 million, with roughly \$48 million expended to date. A \$26 million renovation of Wittson Hall kicked off in 2018, as well as a \$10 million renovation of the Joseph D. and Millie E. Williams Science Hall.
  - Construction nears completion on a \$16 million Village Flats Housing project at UNK. The residence hall contains 68 one-bedroom and 31 two-bedroom apartments, and is geared toward upperclassmen and graduate-level students.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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- At UNO, construction continued for the Strauss Performing Arts Center addition and renovation at a cost of \$18 million. The renovation is needed to update the existing facility to meet current ADA, fire and life safety codes as well as addressing needed rehabilitation of interior spaces and upgrade old systems, furnishings and finishes. Additionally, construction began on the Biomechanics Research Building Addition, a project with a total cost of approximately \$12 million.
- At UNL, construction was substantially completed on Howard L. Hawks Hall, Massengale Residential Center, Nebraska Veterinary Diagnostic Center and the University Health Center and College of Nursing. New projects in process include the Morrill Hall 4<sup>th</sup> Floor Renovation for \$11 million and the Gymnastic Training Facility for \$14 million.
- **Indebtedness.** Overall, bonded indebtedness increased in 2018 by approximately \$14 million on a base of \$912 million at June 30, 2017, the result of five new issues net of maturities/calls:
  - Two issues were marketed by the Master Trust Indenture (MTI):
    - \$15,120 of UNO Revenue Bonds to advance refund \$15,405 of Series 2010B Bonds.
    - \$10,960 of UNO Revenue Bonds to advance refund \$12,345 of Series 2010 Bonds.
  - Three new issues were marketed by UNFC:
    - \$13,000 of UNMC Eye Institute Project Bonds to refinance \$14,740 of UNMC Eye Institute Bonds, Series 2011.
    - \$77,335 of Deferred Maintenance Bonds for continued renewal, renovation and replacement projects on the four campuses of the University of Nebraska.
    - \$36,535 of UNO/Community Refunding Bonds to advance refund \$35,800 of UNO/Community Facility Bonds, Series 2013A.
- Financial performance in the operations financed by MTI bonds (unions, student residences, recreation facilities, and parking) led to strong debt coverage ratios of 1.65 times versus a required 1.15. As the bond covenants state that defined excess funds must stay within the bonded portion of the enterprise, strong performance also allows MTI members to create reserves that allow measured, planned modernizations of facilities and equity infusion into projects without incurring additional incremental borrowings that would otherwise be required.
- **State appropriations and tuition.** The Nebraska Legislature appropriated a 2% decrease in state support of University operations for fiscal 2018 compared to a 3% increase in 2017 and 2016. Tuition increased 5.4% and 2.5% in 2018 and 2017, respectively, compared to a 1.75% increase in fiscal 2016. This support, along with internal reallocations, permitted the University to provide a 1.75% increase in the salary pool for faculty and staff and to pay negotiated salary increases for UNO and UNK collective bargaining units. The University will continue to work with the State with the hope of returning to historical norms of increased support.
- **Federal Grants and Contracts.** Revenues from Federal grants and contracts increased by 6% from 2017 to 2018 compared to an 8% increase from 2016 to 2017. Revenues from Federal sources support the research and discovery efforts of the University and provide financial aid to students.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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- ***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 \$55 million in 2018 compared to \$98 million in 2017, and \$113 million in 2016. The largest decrease in gifts resulted from completion of the Fred and Pamela Buffett Cancer Center at UNMC.

### 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:

- Net investment in capital assets: 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 donors 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 components 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.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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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,		
	2018	2017	2016
<b>Assets and Deferred Outflows</b>			
Current assets	\$ 1,345,686	\$ 1,302,071	\$ 1,305,002
Capital assets, net of accumulated depreciation	2,797,199	2,768,094	2,588,806
Other non-current assets	1,167,883	1,063,152	991,742
Total assets	<u>5,310,768</u>	<u>5,133,317</u>	<u>4,885,550</u>
Deferred Outflows of Resources	<u>19,810</u>	<u>16,681</u>	<u>7,630</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>			
Current liabilities	455,635	452,620	424,170
Non-current liabilities	914,505	891,047	884,006
Total liabilities	<u>1,370,140</u>	<u>1,343,667</u>	<u>1,308,176</u>
Deferred Inflows of Resources	<u>19,785</u>	<u>19,486</u>	<u>14,523</u>
Net position:			
Net investment in capital assets	2,240,603	2,165,096	1,953,065
Restricted for:			
Nonexpendable:			
Permanent endowment	233,949	225,490	207,481
Expendable:			
Externally restricted funds	365,561	344,631	227,970
Loan funds	42,063	43,439	43,110
Plant construction	229,272	211,566	243,917
Debt service	155,395	145,500	144,167
Unrestricted	<u>673,810</u>	<u>651,123</u>	<u>750,771</u>
Total net position	<u>\$ 3,940,653</u>	<u>\$ 3,786,845</u>	<u>\$ 3,570,481</u>

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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

	Year Ended June 30,		
	2018	2017	2016
<b>Operating Revenues:</b>			
Tuition and fees	\$ 405,808	\$ 389,649	\$ 376,599
Federal grants and contracts - restricted	268,437	254,173	234,484
Private grants and contracts - restricted	192,482	196,221	174,294
State grants and contracts - restricted	39,539	40,799	36,099
Sales and services of educational activities	112,573	102,299	98,992
Sales and services of health care entities	32,008	27,437	23,557
Sales and services of auxiliary operations	213,933	179,631	175,915
Sales and services of auxiliary segments	122,619	125,642	121,910
Other operating revenues	13,751	12,956	13,238
<b>Total operating revenues</b>	<b>1,401,150</b>	<b>1,328,807</b>	<b>1,255,088</b>
<b>Operating Expenses:</b>			
Compensation and benefits	1,303,485	1,263,594	1,221,257
Supplies and services	573,061	573,995	540,357
Depreciation	139,408	120,111	115,216
Scholarships and fellowships	75,807	68,639	63,600
<b>Total operating expenses</b>	<b>2,091,761</b>	<b>2,026,339</b>	<b>1,940,430</b>
<b>Operating Loss</b>	<b>(690,611)</b>	<b>(697,532)</b>	<b>(685,342)</b>
<b>Non-operating Revenues (Expenses):</b>			
State of Nebraska non-capital appropriations	559,188	576,559	561,079
Federal grants	48,820	43,004	42,343
Gifts	96,071	100,968	95,520
Investment income	45,633	39,037	26,942
Interest on bond obligations	(32,758)	(24,044)	(24,424)
Equity in joint venture	36,111	36,784	47,982
Other non-operating revenues	(2,300)	8,466	(21,642)
<b>Net non-operating revenues</b>	<b>750,765</b>	<b>780,774</b>	<b>727,800</b>
<b>Income before Other Revenues, Expenses, Gains or Losses</b>	<b>60,154</b>	<b>83,242</b>	<b>42,458</b>
<b>Other Revenues, Expenses, Gains or Losses:</b>			
State of Nebraska capital appropriations	36,182	32,497	60,353
Capital grants and gifts	55,213	98,506	112,856
Contribution/(distribution) to/from non-controlling interest	-	-	(1,003)
Additions to permanent endowments	2,259	2,119	1,701
Net other revenues, expenses, and gains or losses	93,654	133,122	173,907
<b>Increase in net position</b>	<b>153,808</b>	<b>216,364</b>	<b>216,365</b>
<b>Net position, beginning of year</b>	<b>3,786,845</b>	<b>3,570,481</b>	<b>3,354,116</b>
<b>Net position, end of year</b>	<b>\$ 3,940,653</b>	<b>\$ 3,786,845</b>	<b>\$ 3,570,481</b>

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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***Analysis of Financial Position.*** Cash and cash equivalents represent the preponderance of current assets of the University and increased \$94 million in 2018, after slight decreases in 2017 and 2016.

Non-current assets of the University are dominated by the investment in capital assets. At June 30, 2018, total investment in capital assets was \$3.8 billion, yielding a net investment, after accumulated depreciation, of \$2.8 billion. The increase in capital assets was \$29 million, consisting of additions of \$168 million net of depreciation of \$139 million. Changes in capital assets are further detailed in the capital asset section of this discussion.

Capital gifts from the Foundation contributed to funding the UNMC Fred & Pamela Buffett Cancer Center, Howard L. Hawks Hall, the new College of Business building at UNL, the UNO Biomechanics Research building addition, Strauss Performing Arts Center Addition & Renovation, the UNL Gymnastic Facility, and funds for debt service on certain UNFC projects. All other projects were funded or partially funded from MTI and UNFC bond issues of current and prior years, capital appropriations, and certain designated internal funds.

Net bonded indebtedness increased by \$14 million in 2018 following increases of \$39 million and \$38 million in 2017 and 2016, respectively. Indebtedness issued was \$153 million in 2018 with \$194 million issued in 2017 and \$162 million issued in 2016. The individual bond issuances were recounted earlier in this discussion and in the debt activity portion of this communication.

The unrestricted net position of the University increased by 3% or \$23 million during the year to \$674 million. The increase is primarily due to an increase in athletic revenue sharing, as UNL became a full member of the Big Ten Conference.

***Analysis of Operations – Overview.*** The University generated \$1,401 million of operating revenues during 2018, an increase of \$72 million over 2017, while operating expenses were \$2,092 million, up \$65 million over the prior year. These changes resulted in a decrease in the operating loss of \$7 million to \$690 million in 2018 compared to losses of \$697 million and \$686 million for 2017 and 2016. 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 non-capital 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 \$131 million in 2018 compared to similar "losses" of \$121 million in 2017 and \$125 million in 2016.

The Nebraska Legislature provided \$559 million in non-capital appropriations for 2018, a decrease of \$17 million over 2017 following an increase of \$16 million in 2017 and an increase of \$17 million in 2016. The University, in conjunction with the Foundation, generated non-operating and capital gifts of approximately \$151 million that, when combined with all other non-operating revenues and expenses including investment income of \$46 million, netted an overall increase in net position of approximately \$154 million.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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**Revenues.** The following chart depicts the revenues for 2018 and 2017 and the comparative changes that occurred between those years.

	2018		2017		2018-2017 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Tuition and fees	\$ 405,808	29%	\$ 389,649	29%	\$ 16,159	4%
Federal grants and contracts - restricted	268,437	19	254,173	19	14,264	6
Private grants and contracts - restricted	192,482	14	196,221	15	(3,739)	(2)
State grants and contracts - restricted	39,539	3	40,799	3	(1,260)	(3)
Sales and services of educational activities	112,573	8	102,299	8	10,274	10
Sales and services of health care entities	32,008	2	27,437	2	4,571	17
Sales and services of auxiliary operations	213,933	15	179,631	14	34,302	19
Sales and services of auxiliary segments	122,619	9	125,642	9	(3,023)	(2)
Other operating revenues	13,751	1	12,956	1	795	6
Total operating revenues	<u>\$ 1,401,150</u>	<u>100%</u>	<u>\$ 1,328,807</u>	<u>100%</u>	<u>\$ 72,343</u>	<u>5%</u>

The University's operating revenues increased in fiscal year 2018 by 5% or \$72 million. A three year comparison of revenues for the years 2018, 2017, and 2016 is presented on page 10.

- The largest increase in revenue was realized in auxiliary operations, which increased by \$34 million in 2018 compared to 2017, following an increase of \$4 million in 2017 compared to 2016. The primary driver was an increase in athletic revenue sharing, as UNL became a full member of the Big Ten Conference, as well as an increase in athletic sponsorship agreements and game guarantees.
- The second largest increase in revenue was tuition and fees, which increased during the year by 4% on modest enrollment growth and an increase in tuition of 5.4%.
- The third largest increase in revenue was federal grants and contracts, which increased during the year by 6%. Two new grants at UNMC, one from Health and Human Services and one from National Institutes of Health, that totaled approximately \$11 million was the primary factor impacting the increase.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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**Expenses.** The following chart shows the University's expenses for 2018 and 2017 and comparative changes that occurred between those years. A three year comparison of expenses for the years 2018, 2017, and 2016 is presented on page 10.

	2018		2017		2018-2017 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Compensation and benefits	\$ 1,303,485	62%	\$ 1,263,594	62%	\$ 39,891	3%
Supplies and services	573,061	27	573,995	28	(934)	0
Depreciation	139,408	7	120,111	6	19,297	16
Scholarships and fellowships	75,807	4	68,639	4	7,168	10
Total operating expenses	<u>\$ 2,091,761</u>	<u>100%</u>	<u>\$ 2,026,339</u>	<u>100%</u>	<u>\$ 65,422</u>	<u>3%</u>

Operating expenses increased by \$65 million for the 2018 fiscal year. Changes in the major expense classifications follow.

- Compensation and benefits increased by 3% in 2018, following a 4% increase in 2017 and a 6% increase in 2016. While the 2018 University salary pool was 1.75%, funding of strategic priorities and a gain in Federal grant activity also contributed to the increase. In addition, an increase in insurance claims contributed to an uptick in benefit costs.
- Depreciation expense increased by 16% and was driven by numerous building additions in 2017 that had their first full year of depreciation in 2018. These include the \$328 million Fred & Pamela Buffett Cancer Center at UNMC and the \$29 million Willa Cather Dining Complex at UNL.
- Scholarships and fellowships increased \$7 million in 2018, a rise of 10% compared to 2017. The primary driver was an increase in Pell grants of \$5 million in 2018.

**Non-Operating Revenues (Expenses).** Net non-operating revenues decreased \$30 million during 2018 compared to 2017. Decreases in non-capital state appropriations, non-capital gifts, and other non-operating revenues and expenses account for the majority of the change.

Non-capital state appropriations decreased \$17 million, due to a 2% decrease in state funding. Support from the Foundation and the private sector provided the University with non-capital gifts during the year of \$96 million, compared to \$101 million in 2017. Non-capital gifts support scholarships to students, professorships, and a variety of academic and research pursuits.

**Other Revenues, Expenses, Gains, or Losses.** Net other revenues, expenses, gains, or losses decreased by \$39 million. A \$43 million decrease in capital gifts was the primary driver, off-set by an increase of \$4 million in State of Nebraska capital appropriations. Capital gifts decreased due to several major construction projects, funded from donations, that were completed in 2017 and 2018. The increase in capital appropriations can be attributed to the continuing iEXCEL project at UNMC and the College of Nursing at UNL. Capital appropriations include a total of \$11 million each year for debt service on both the 2017A and 2016 Series of deferred maintenance bonds.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)

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### Capital Assets

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

- At UNL, three major construction projects were completed in 2018. Massengale Residential Center, a new residence hall on East Campus, was opened at a cost of \$34 million. The Nebraska Veterinary Diagnostic Center addition was completed for \$31 million. The University Health Center and College of Nursing opened in the summer of 2018. State appropriations, bonds, donor gifts, and University resources funded the \$26 million project.
- Maverick Landing, the new welcome and visitor center at UNO was completed at a cost of \$3.5 million. This new space on the Scott Campus creates new opportunities to welcome prospective students, their families, and other visitors to UNO, while also providing a new social space for current students. Also at UNO, the new 67<sup>th</sup> & Pacific Parking Garage, was capitalized at a cost of \$26 million.
- UNMC completed upgrades to their energy management monitoring systems for \$10 million. At UNK, several utility, infrastructure and fiber projects were completed for a total cost of \$6 million.

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 five bond financings during 2018. Two financings were issued through the MTI:

- The Board of Regents issued \$15,120 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2017A. The net proceeds of the bonds, along with other funds, were used to advance refund \$15,405 of Series 2010B Bonds.
- The Board of Regents issued \$10,960 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2017B. The proceeds, together with other funds, were used to advance refund \$12,345 of Series 2010 Bonds.

UNFC sold three bond issues during the year:

- UNFC issued \$13,000 of UNMC Eye Institute Project Bonds, Series 2018. The proceeds will be used to refinance \$14,700 of UNMC Eye Institute Bonds, Series 2011.
- UNFC issued \$77,335 of Deferred Maintenance Bonds, Series 2017A. The proceeds will be used for continued renewal, renovation, and replacement projects on the four campuses of the University of Nebraska.
- UNFC issued \$36,535 of UNO/Community Refunding Bonds, Series 2017B. The proceeds will be used to advance refund \$35,800 of UNO/Community Facility Bonds, Series 2013A.

The University has been actively refinancing debt as it becomes callable and financially viable. Additional information about the impacts of the refinancings can be found in the Notes to the Financial Statements.

# **THE UNIVERSITY OF NEBRASKA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)**

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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, student recreation, and student unions. The financial position of the MTI had operating income that provided a debt service ratio of 1.65 times for the year ended June 30, 2018, compared to 1.72 times for 2017 and 1.68 times in 2016. The debt service ratio required by the MTI covenants is 1.15 times.

UNFC met all debt service requirements during 2018. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Projects, the NCTA Education Center and Vet Diagnostic Center. The Deferred Maintenance Project appropriation of \$11 million is matched 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 only public education/intensive 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 2019 session of the Nebraska Legislature will be a "long session" that includes formation and passage of a state budget for the two-year biennium ending June 30, 2021. The University has submitted a request asking for annual state appropriation increases that average 3% per year. This funding would be used to fund wage increases, health benefits, utilities and other operating costs. After several years of stagnant growth due to low agriculture commodity prices, State of Nebraska revenues have rebounded thus far in fiscal year 2018-19, running 3.1% ahead of forecast through October 2018. However, trade conflicts, and their long-term impact on Nebraska's agriculture economy, continue to concern economists.

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 path forward. These will help channel resources to carefully considered objectives that will help the University better serve Nebraskans through quality teaching, research, and outreach and engagement.

The Buffett Early Childhood Institute, the Water for Food Initiative, and the Fred and Pamela Buffett Cancer Center 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 U.S. Department of Defense. This enterprise will prove increasingly important in maintaining research pre-eminence in an era of flat/declining traditional Federal grants and contracts sources. It also assists in retaining key faculty assets in the research enterprise. In June of 2018, the University of Nebraska and the United States Strategic Command announced that NSRI has been renewed with a five-year, \$92 million contract from the U.S. Air Force.

# THE UNIVERSITY OF NEBRASKA

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2018 and 2017 (UNAUDITED) (Columnar Amounts in Thousands)**

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Other areas of differentiation include cancer research and treatment, with the construction of a cancer center research and hospital tower having been completed at the medical center campus, a new, privately-funded College of Business building at the Lincoln campus, a new dedicated facility for community engagement at the Omaha campus, and a nursing and allied health building seeking to alleviate out-state shortages in health care workers at Kearney.

Fall 2018 enrollments were down slightly mostly due to a drop in international students. Student headcounts still remain at historical highs, which we attribute to tuition being favorable to peers. Attracting and retaining the best and brightest is so important in growing Nebraska, especially in a state with an unemployment rate under 3%.

The University of Nebraska Foundation also continues to provide much needed resources. Funds provided to the University, predominantly restricted to capital, academic support, and student assistance, totaled \$181 million in 2018, yielding a five-year total of nearly \$1 billion. This is greatly valued as it provides scholarships, professorships, and much needed capital project funding, the very things that will strategically power the University forward.

The future of the State of Nebraska is closely tied to that of its only public university, and the strategic 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, 2018 AND 2017

(Thousands)

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

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 603,703	\$ 556,553
Cash and cash equivalents - restricted	322,480	275,355
Cash and cash equivalents held by trustee - restricted	68,992	69,574
Investments - restricted	148,374	160,275
Accounts receivable and unbilled charges, net	175,447	206,579
Loans to students, net	5,233	5,263
Other current assets	<u>21,457</u>	<u>28,472</u>
Total current assets	<u>1,345,686</u>	<u>1,302,071</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents	1,508	-
Cash and cash equivalents - restricted	339	939
Cash and cash equivalents held by trustee - restricted	275,091	232,938
Investments - restricted	375,486	345,866
Investments held by trustee - restricted	12,871	14,508
Accounts receivable and unbilled charges, net	30,819	23,745
Investment in joint venture	443,182	415,574
Loans to students, net of current portion	28,045	28,847
Capital assets, net of accumulated depreciation	2,797,199	2,768,094
Other non-current assets	<u>542</u>	<u>735</u>
Total non-current assets	<u>3,965,082</u>	<u>3,831,246</u>
Total assets	<u>5,310,768</u>	<u>5,133,317</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred loss on bond refunding	<u>19,810</u>	<u>16,681</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	104,949	110,714
Accrued salaries and wages	48,035	47,784
Accrued compensated absences	56,438	56,145
Bond obligations payable	79,227	90,374
Capital lease obligations	288	234
Unearned revenues and credits	152,438	136,358
Health and other insurance claims	<u>14,260</u>	<u>11,011</u>
Total current liabilities	<u>455,635</u>	<u>452,620</u>
NON-CURRENT LIABILITIES:		
Accrued salaries and wages, net of current portion	4	19
Accrued compensated absences, net of current portion	18,059	18,436
Bond obligations payable, net of current portion	847,120	821,946
Capital lease obligations, net of current portion	49,121	48,896
Unearned revenues and credits, net of current portion	201	-
Health and other insurance claims, net of current portion	-	1,750
Total non-current liabilities	<u>914,505</u>	<u>891,047</u>
Total liabilities	<u>1,370,140</u>	<u>1,343,667</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred service concession arrangement receipts	19,143	18,546
Deferred gain on bond refunding	<u>642</u>	<u>940</u>
Total deferred inflows of resources	<u>19,785</u>	<u>19,486</u>
NET POSITION:		
Net investment in capital assets	2,240,603	2,165,096
Restricted for:		
Nonexpendable:		
Permanent endowment	233,949	225,490
Expendable:		
Externally restricted funds for scholarships, student aid, and research	365,561	344,631
Loan funds	42,063	43,439
Plant construction	229,272	211,566
Debt service	155,395	145,500
Unrestricted	<u>673,810</u>	<u>651,123</u>
Total net position	<u>\$ 3,940,653</u>	<u>\$ 3,786,845</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**UNIVERSITY OF NEBRASKA FOUNDATION**  
**(A Component Unit of the University of Nebraska)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**  
**(Thousands)**  
**(See Independent Auditors' Reports on Pages 1, 2, 3, and 4)**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 48,769	\$ 40,780
Temporary investments	400,377	373,191
Pledges receivable	187,856	202,003
Other receivables	6,276	5,509
Investments	1,756,282	1,659,647
Property and equipment, net of depreciation	<u>50,456</u>	<u>52,133</u>
Total assets	<u>\$ 2,450,016</u>	<u>\$ 2,333,263</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 5,952	\$ 5,232
University of Nebraska benefits payable	1,069	1,188
Scholarships, research, fellowships and professorships payable	12,345	13,353
Note payable	17,559	16,971
Deferred annuities payable	16,644	19,167
Deposits held in custody for others	334,749	325,803
Deferred revenue	<u>2,725</u>	<u>3,117</u>
Total liabilities	<u>391,043</u>	<u>384,831</u>
<b>NET ASSETS:</b>		
Unrestricted	26,514	13,507
Temporarily restricted	1,021,314	966,858
Permanently restricted	<u>1,011,145</u>	<u>968,067</u>
Total net assets	<u>2,058,973</u>	<u>1,948,432</u>
Total liabilities and net assets	<u>\$ 2,450,016</u>	<u>\$ 2,333,263</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**  
**(Thousands)**  
**(See Independent Auditors' Report on Pages 1, 2, and 3)**

	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances of \$142,938 and \$126,157 in 2018 and 2017, respectively)	\$ 405,808	\$ 389,649
Federal grants and contracts - restricted	268,437	254,173
Private grants and contracts - restricted	192,482	196,221
State and local grants and contracts - restricted	39,539	40,799
Sales and services of educational activities	112,573	102,299
Sales and services of health care entities	32,008	27,437
Sales and services of auxiliary operations	213,933	179,631
Sales and services of auxiliary segments (net of scholarship allowances of \$15,054 and \$13,902 in 2018 and 2017, respectively)	122,619	125,642
Other operating revenues	13,751	12,956
Total operating revenues	1,401,150	1,328,807
<b>OPERATING EXPENSES:</b>		
Compensation and benefits	1,303,485	1,263,594
Supplies and services	573,061	573,995
Depreciation	139,408	120,111
Scholarships and fellowships	75,807	68,639
Total operating expenses	2,091,761	2,026,339
<b>OPERATING LOSS</b>	(690,611)	(697,532)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State of Nebraska non-capital appropriations	559,188	576,559
Federal Grants	48,820	43,004
Gifts	96,071	100,968
Investment income (net of investment management fees of \$6,517 and \$6,666 in 2018 and 2017, respectively)	45,633	39,037
Interest on bond obligations	(32,758)	(24,044)
Equity in joint venture	36,111	36,784
Other non-operating revenues	(2,300)	8,466
Net non-operating revenues	750,765	780,774
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	60,154	83,242
<b>OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:</b>		
State of Nebraska capital appropriations	36,182	32,497
Capital grants and gifts	55,213	98,506
Additions to permanent endowments	2,259	2,119
Net other revenues, expenses, gains, or losses	93,654	133,122
<b>INCREASE IN NET POSITION</b>	153,808	216,364
<b>NET POSITION:</b>		
Net position, beginning of year	3,786,845	3,570,481
Net position, end of year	\$ 3,940,653	\$ 3,786,845

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

UNIVERSITY OF NEBRASKA FOUNDATION  
 (A Component Unit of the University of Nebraska)  
 CONSOLIDATED STATEMENTS OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2018  
 (Thousands)  
 (See Independent Auditors' Reports on Pages 1, 2, 3, and 4)

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND GAINS:</b>				
Gifts, bequests, and life insurance proceeds	\$ 904	\$ 142,646	\$ 42,324	\$ 185,874
Investment income	35,156	(1,346)	-	33,810
Change in value of split-interest agreements	-	1,118	-	1,118
Realized and unrealized gains, net	11,617	91,361	-	102,978
	47,677	233,779	42,324	323,780
Reclassification due to change in donor intent	-	(754)	754	-
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>178,569</b>	<b>(178,569)</b>	<b>-</b>	<b>-</b>
Total revenue and gains	226,246	54,456	43,078	323,780
<b>EXPENSES</b>				
Payments to benefit the University:				
Academic support	93,401	-	-	93,401
Student assistance	25,316	-	-	25,316
Faculty assistance	7,592	-	-	7,592
Research	6,244	-	-	6,244
Museum, library, and fine arts	2,894	-	-	2,894
Campus and building improvements	44,535	-	-	44,535
Alumni associations	570	-	-	570
Total payments to benefit the University	180,552	-	-	180,552
Operating expenses:				
Salaries and benefits	20,256	-	-	20,256
General and administrative	5,538	-	-	5,538
Fund-raising, promotion, and development	2,135	-	-	2,135
Contributions to other charities	173	-	-	173
Paid to beneficiaries	2,626	-	-	2,626
Depreciation	1,959	-	-	1,959
Total operating expenses	32,687	-	-	32,687
Total expenses	213,239	-	-	213,239
<b>INCREASE IN NET ASSETS</b>	<b>13,007</b>	<b>54,456</b>	<b>43,078</b>	<b>110,541</b>
<b>NET ASSETS at beginning of year</b>	<b>13,507</b>	<b>966,858</b>	<b>968,067</b>	<b>1,948,432</b>
<b>NET ASSETS at end of year</b>	<b>\$ 26,514</b>	<b>\$ 1,021,314</b>	<b>\$ 1,011,145</b>	<b>\$ 2,058,973</b>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

UNIVERSITY OF NEBRASKA FOUNDATION  
 (A Component Unit of the University of Nebraska)  
 CONSOLIDATED STATEMENTS OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2017  
 (Thousands)  
 (See Independent Auditors' Reports on Pages 1, 2, 3, and 4)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND GAINS:</b>				
Gifts, bequests, and life insurance proceeds	\$ 722	\$ 137,350	\$ 31,096	\$ 169,168
Investment income	34,207	5,258	-	39,465
Change in value of split-interest agreements	-	397	-	397
Realized and unrealized gains, net	36,220	83,578	-	119,798
	71,149	226,583	31,096	328,828
Reclassification due to change in donor intent	-	(15,277)	15,277	-
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>193,761</b>	<b>(193,761)</b>	<b>-</b>	<b>-</b>
Total revenue and gains	264,910	17,545	46,373	328,828
<b>EXPENSES</b>				
Payments to benefit the University:				
Academic support	54,910	-	-	54,910
Student assistance	22,405	-	-	22,405
Faculty assistance	6,861	-	-	6,861
Research	6,243	-	-	6,243
Museum, library, and fine arts	2,951	-	-	2,951
Campus and building improvements	99,813	-	-	99,813
Alumni associations	724	-	-	724
Total payments to benefit the University	193,907	-	-	193,907
Operating expenses:				
Salaries and benefits	19,225	-	-	19,225
General and administrative	5,054	-	-	5,054
Fund-raising, promotion, and development	2,363	-	-	2,363
Contributions to other charities	119	-	-	119
Paid to beneficiaries	2,730	-	-	2,730
Depreciation	1,706	-	-	1,706
Total operating expenses	31,197	-	-	31,197
Total expenses	225,104	-	-	225,104
<b>INCREASE IN NET ASSETS</b>	<b>39,806</b>	<b>17,545</b>	<b>46,373</b>	<b>103,724</b>
NET ASSETS at beginning of year	(26,299)	949,313	921,694	1,844,708
NET ASSETS at end of year	\$ 13,507	\$ 966,858	\$ 968,067	\$ 1,948,432

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**  
**(Thousands)**  
**(See Independent Auditors' Report on Pages 1, 2, and 3)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Grants and contracts	\$ 522,155	\$ 503,398
Tuition and fees	404,701	390,707
Sales and services of health care entities	28,938	26,723
Sales and services of auxiliary operations	232,018	159,354
Sales and services of auxiliary segments	121,009	126,995
Sales and services of educational activities	115,374	101,825
Student loans collected	6,252	6,265
Other Receipts	35,276	-
Payments to employees	(1,302,988)	(1,256,274)
Payments to vendors	(565,217)	(581,973)
Scholarships paid to students	(75,807)	(68,640)
Student loans issued	(5,016)	(4,712)
Other payments	-	(7,927)
Net cash flows from operating activities	<u>(483,305)</u>	<u>(604,259)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
State of Nebraska non-capital appropriations	559,189	576,557
Gifts	98,273	103,361
Federal grants	48,820	43,004
Other receipts	1,271	3,282
Direct lending receipts	244,023	242,891
Direct lending payments	(244,023)	(242,891)
Net cash flows from non-capital financing activities	<u>707,553</u>	<u>726,204</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of bonds	152,950	194,260
Gifts	62,032	95,824
State of Nebraska capital appropriations	37,306	36,158
Premium on issuance of bonds	17,989	19,642
Proceeds from the sale of capital assets	-	2,797
Purchases of capital assets	(204,973)	(311,868)
Defeasance of bond obligations	(71,021)	(114,067)
Principal paid on bond obligations	(83,465)	(63,285)
Interest paid on bond obligations	(38,101)	(37,522)
Payments made on lease obligations	(345)	(718)
Net cash flows from capital and related financing activities	<u>(127,628)</u>	<u>(178,779)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	230,015	229,119
Interest on investments	44,996	38,495
Distributions received from joint venture	8,634	7,026
Purchases of investments	(243,511)	(216,316)
Net cash flows from investing activities	<u>40,134</u>	<u>58,324</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	136,754	1,490
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,135,359</u>	<u>1,133,869</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,272,113</u>	<u>\$ 1,135,359</u>

See notes to financial statements.

(Continued)

# THE UNIVERSITY OF NEBRASKA

**STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**  
**(Thousands)**  
**(See Independent Auditors' Report on Pages 1, 2, and 3)**

	<b>2018</b>	<b>2017</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET POSITION:</b>		
Cash and cash equivalents (current)		
Cash and cash equivalents - restricted (current)	\$ 603,703	\$ 556,553
Cash and cash equivalents held by trustee - restricted (current)	322,480	275,355
Cash and cash equivalents (non-current)	68,992	69,574
Cash and cash equivalents - restricted (non-current)	1,508	-
Cash and cash equivalents held by trustee - restricted (non-current)	339	939
	<u>275,091</u>	<u>232,938</u>
Cash and cash equivalents, end of year	<u>\$ 1,272,113</u>	<u>\$ 1,135,359</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating loss	\$ (690,611)	\$ (697,532)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	139,408	120,111
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	13,090	(27,753)
Loans to students	832	2,059
Other current assets	38,487	(15,400)
Accounts payable	(5,735)	(11,114)
Accrued salaries and wages	144	7,316
Unearned revenues and credits	19,579	19,875
Health and other insurance claims	<u>1,501</u>	<u>(1,821)</u>
Net cash flows used in operating activities	<u>\$ (483,305)</u>	<u>\$ (604,259)</u>
<b>NON-CASH TRANSACTIONS:</b>		
Capital gifts and grants	\$ 128	\$ 143
Increase (decrease) in fair value of investments	2,481	17,922
Purchase of capital assets through lease obligations	623	622
Equity in earnings	515	1,211

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**UNIVERSITY OF NEBRASKA FOUNDATION  
(A Component Unit of the University of Nebraska)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017  
(Thousands)**  
**(See Independent Auditors' Report on Pages 1, 2, 3, and 4)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 110,541	\$ 103,724
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	1,959	1,706
Net realized and unrealized losses (gains) on investments	(102,978)	(119,798)
Imputed interest expense	588	589
Contribution to permanently restricted endowment funds	(42,324)	(31,096)
Real and personal property contributions received	(1,169)	(119)
(Increase) Decrease in:		
Pledges receivable	13,264	29,180
Other receivables	(534)	(2,053)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	720	3,828
University of Nebraska benefits payable	(119)	(56)
Scholarships, research, fellowships and professorships payable	(1,008)	1,182
Deferred annuities payable	(2,523)	388
Deferred revenue	(392)	(3,439)
Net cash used in operating activities	<u>(23,975)</u>	<u>(15,964)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of temporary investments	(576,386)	(272,253)
Proceeds from sale and maturity of temporary investments	540,392	258,020
Net increase in student loans	(233)	(21)
Purchase of investments	(402,740)	(351,822)
Proceeds from sale and maturity of investments	428,006	362,998
Proceeds from sales of property and equipment	6	14
Purchase of property and equipment	(288)	(818)
Net cash used in investing activities	<u>(11,243)</u>	<u>(3,882)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
Contribution to permanently restricted endowment funds	43,207	33,526
Net cash provided by financing activities	<u>43,207</u>	<u>33,526</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	7,989	13,680
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>		
	40,780	27,100
<b>CASH AND CASH EQUIVALENTS, end of year</b>		
	<u>\$ 48,769</u>	<u>\$ 40,780</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). 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 applicable 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 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.
- The UNMC Science Research Fund (SRF) is a not-for-profit corporation organized by the Board of Regents to solely support the research mission of the UNMC and provides services entirely, or almost entirely, to UNMC and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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- UNeHealth, a Nebraska not-for-profit corporation, was organized in 1996 to further the general health care purpose of the University of Nebraska Medical Center (UNMC). UNeHealth will increase the efficiency and effectiveness, boost visibility of commercial clinical research and ensure that contract budgets take in consideration the best interests of UNMC, UNMC Physicians (UNMC-P) and The Nebraska Medical Center (TNMC). UNeHealth seeks to create a more appealing environment for industry collaborations.
- 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 provides services entirely, or almost entirely, to the UNL campus. NUCorp is governed by a five-member Board, three of which are University officials.
- The University Technology Development Corporation (UTDC) was organized to solely support the research mission of the University and provides services entirely, or almost entirely, to the University 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 six non-profit subsidiaries and one for profit subsidiary. UTDC is the sole member/stockholder of each subsidiary.

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

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

**Basis of Presentation** – The financial statements of the University have been prepared on the accrual basis. The University recognizes revenues, net of discounts and allowances, when it is earned. Expenses are recorded when a liability is incurred. The University first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net 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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

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

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

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

Capital assets are defined by the University as assets with initial, individual costs in excess of \$500 for buildings and renovations, \$100 for land improvements, and \$5 for equipment. It is the University's policy that library books are not capitalized.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed in 2017. The total interest expense capitalized during 2018 and 2017 was \$0 and \$7,736 respectively.

In 2018 the University adopted GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The implementation of GASB Statement No. 89 discontinues the capitalization of interest costs incurred during construction on a prospective basis.

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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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***Unearned 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.

***Deferred Outflows and Inflows of Resources*** – Deferred outflows represent the unamortized losses/gains on bond refundings, which are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. Deferred inflows represent the present value of remaining accounts receivable due from a vendor resulting from a service concession arrangement. The University enters into service concession arrangements with outside vendors for services, including food service, bookstores, banking, and concession and catering operations. Capital improvements received are recorded as capital assets as the University retains rights to the facilities. Amounts receivable are present valued and realized over the course of the contract. These assets are offset by deferred inflows of resources. Resources are recognized over the respective contract periods.

***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, 2018 and 2017, Federal grants and contracts includes Pell grant awards amounting to \$48,857 and \$43,071, 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 \$244,121 and \$242,891 at June 30, 2018 and 2017, 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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

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

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

***Reclassifications*** – Certain 2017 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 \$1,830 (book balance of approximately \$987) at June 30, 2018, with approximately \$1,548 covered by Federal depository insurance. Bank balances of cash and cash equivalents amounted to approximately \$1,591 (book balance of approximately \$1,028) at June 30, 2017, with approximately \$1,575 covered by Federal depository insurance. The remaining bank balances at June 30, 2018 and 2017, were collateralized with securities held by the pledging financial institution, but not in the University's name.

### C. INVESTMENTS

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

The University 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).

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

In certain cases, the inputs used to measure fair value may fall in different levels of fair value hierarchy. The three levels are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of broadly traded range of equity and debt securities.
- Level 2 inputs are those other than quoted prices included in Level 1 that are observable for the asset or liability, whether directly or indirectly.
- Level 3 inputs are unobservable and significant to the fair value measurement of the asset or liability.

The tables below present by Level the asset balances at estimated fair value on a recurring basis.

Assets at fair value as of June 30, 2018						
	Total	Level 1	Level 2	Level 3		
Investments:						
Money market funds	\$ 24,485	\$ 24,485	\$ -	\$ -		
U.S. government securities	73,261	-	73,261	-		
Municipal bonds	8,747	-	8,747	-		
International bonds	9,915	-	9,915	-		
Corporate bonds	69,715	-	69,715	-		
Common stock	164,944	164,944	-	-		
International equity	108,520	108,520	-	-		
Mutual funds-equity	27,860	27,860	-	-		
Mutual funds-fixed income	27,915	27,915	-	-		
Index funds-commodities	3,541	3,541	-	-		
Index funds-public equity	6,040	6,040	-	-		
Real estate held for investment purposes	932	-	-	932		
Real estate mutual funds	10,856	10,856	-	-		
Total	<u>\$ 536,731</u>	<u>\$ 374,161</u>	<u>\$ 161,638</u>	<u>\$ 932</u>		

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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	Assets at fair value as of June 30, 2017			
	Total	Level 1	Level 2	Level 3
<b>Investments:</b>				
Money market funds	\$ 15,347	\$ 15,347	\$ -	\$ -
U.S. government securities	93,597	-	93,597	-
Municipal bonds	10,888	-	10,888	-
International bonds	9,752	-	9,752	-
Corporate bonds	81,452	-	81,452	-
Common stock	148,327	148,327	-	-
International Equity	94,711	94,711	-	-
Mutual funds-equity	22,919	22,919	-	-
Mutual funds-fixed income	24,324	24,324	-	-
Index funds-commodities	2,729	2,729	-	-
Index funds-public equity	5,334	5,334	-	-
Real estate held for investment purposes	932	-	-	932
Real estate mutual funds	10,337	10,337	-	-
<b>Total</b>	<b>\$ 520,649</b>	<b>\$ 324,028</b>	<b>\$ 195,689</b>	<b>\$ 932</b>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

Investment maturities as of June 30, 2018 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
<b>Investments type:</b>					
<b>Debt securities:</b>					
U.S. treasuries	\$ 22,549	\$ 860	\$ 7,143	\$ 13,196	\$ 1,350
U.S. agencies	50,713	5,802	12,286	3,876	28,749
Municipal bonds	8,747	1,539	4,235	2,908	65
Corporate debt	69,713	3,197 (1)	50,275 (2)	14,770 (3)	1,471 (4)
International bonds	<u>9,916</u>	<u>4,298</u>	<u>3,315</u>	<u>507</u>	<u>1,796</u>
	<u>161,638</u>	<u>\$ 15,696</u>	<u>\$ 77,254</u>	<u>\$ 35,257</u>	<u>\$ 33,431</u>
<b>Other investments:</b>					
Equity securities - domestic	197,380				
Equity securities - international	108,520				
Mutual funds	32,921				
Real estate mutual funds	10,856				
Real estate held for investment purposes	932				
Money market funds	<u>24,484</u>				
Total	<u>\$ 536,731</u>				

(1) This amount includes \$261 of bonds callable in less than 1 year.

(2) This amount includes \$700 of bonds callable in less than 3 years, \$204 of bonds callable in less than 4 years, \$137 of bonds callable in less than 5 years, and \$162 of bonds callable in less than 6 years.

(3) This amount includes \$139 of bonds callable in less than 7 years, \$340 of bonds callable in less than 8 years, and \$191 of bonds callable in less than 9 years.

(4) This amount includes \$219 of bonds callable in 21-27 years.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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Investments maturities as of June 30, 2017 are as follows:

	Fair Value	Investment Maturity (in years)					
		Less Than 1	1-5	6-10	More Than 10		
<b>Investment type:</b>							
<b>Debt securities:</b>							
U.S. treasuries	\$ 31,245	\$ 9,923	\$ 8,915	\$ 11,186	\$ 1,221		
U.S. agencies	62,352	7,348	18,648	4,966	31,390		
Municipal bonds	10,888	96	5,880	4,846	66		
Corporate debt	81,453	15,413 (1)	47,485 (2)	15,262 (3)	3,293		
International bonds	<u>9,752</u>	<u>1,730</u>	<u>4,492</u>	<u>1,525</u>	<u>2,005</u>		
	<u>195,690</u>	<u>\$ 34,510</u>	<u>\$ 85,420</u>	<u>\$ 37,785</u>	<u>\$ 37,975</u>		
<b>Other investments:</b>							
Equity securities - domestic	176,579						
Equity securities - international	94,711						
Mutual funds	27,053						
Real estate mutual funds	10,337						
Real estate held for investment purposes	932						
Money market funds	<u>15,347</u>						
Total	<u>\$ 520,649</u>						

(1) This amount includes \$1,000 of bonds callable in less than 1 year.

(2) This amount includes \$201 of bonds callable in less than 1 year, \$250 of bonds callable in less than 3 years, \$1,295 of bonds callable in less than 4 years, \$1,835 of bonds callable in less than 5 years, and \$3,583 of bonds callable in less than 6 years.

(3) This amount includes \$710 of bonds callable in less than 7 years, \$2,147 of bonds callable in less than 8 years, and \$6,371 of bonds callable in less than 10 years.

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2018					
	Quality Ratings					
Fair Value	Aaa	AA	A	Baa	Unrated	
Investment type:						
Debt securities:						
U.S. treasuries	\$ 22,549	\$ 22,549	\$ -	\$ -	\$ -	\$ -
U.S. agencies	50,712	50,712	-	-	-	-
Municipal bonds	8,747	8,682	-	65	-	-
Corporate debt	69,715	2,554	13,957	50,452	2,752	-
International bonds	9,915	3,381	2,251	3,308	975	-
Other investments:						
Equity securities - domestic	197,380	-	-	-	-	197,380
Equity securities - international	108,520	-	-	-	-	108,520
Mutual funds	32,921	-	-	-	-	32,921
Real estate mutual funds	10,856	-	-	-	-	10,856
Real estate held for investment purposes	932	-	-	-	-	932
Money market funds	<u>24,484</u>	-	-	-	-	<u>24,484</u>
	<u>\$ 536,731</u>	<u>\$ 87,878</u>	<u>\$ 16,208</u>	<u>\$ 53,825</u>	<u>\$ 3,727</u>	<u>\$ 375,093</u>
	2017					
	Quality Ratings					
Fair Value	Aaa	AA	A	Baa	Unrated	
Investment type:						
Debt securities:						
U.S. treasuries	\$ 31,245	\$ 31,245	\$ -	\$ -	\$ -	\$ -
U.S. agencies	62,352	62,352	-	-	-	-
Municipal bonds	10,888	9,438	-	66	1,384	-
Corporate bonds	81,452	5,370	16,642	56,785	2,337	318
International bonds	9,752	2,787	2,414	3,329	1,099	123
Other investments:						
Equity securities - domestic	176,580	-	-	-	-	176,580
Equity securities - international	94,711	-	-	-	-	94,711
Mutual funds	27,053	-	-	-	-	27,053
Real estate mutual funds	10,337	-	-	-	-	10,337
Real estate held for investment purposes	932	-	-	-	-	932
Money market funds	<u>15,347</u>	-	-	-	-	<u>15,347</u>
	<u>\$ 520,649</u>	<u>\$ 111,192</u>	<u>\$ 19,056</u>	<u>\$ 60,180</u>	<u>\$ 4,820</u>	<u>\$ 325,401</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University places no limit on the amount that may be invested in any one issuer. No issuer represents greater than 5% of the portfolio at June 30, 2018.

**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	
	2018	2017
Mexican Peso	\$ 1,352	\$ 2,106
EMU Euro	-	158
Australian Dollar	562	744
British Pound	1,340	944
Brazilian Real	368	902
Poland Zloty	646	651
Peruvian Sol	211	-
South African Rand	607	530
Malaysian Ringgit	819	-
Totals	<u>\$ 5,905</u>	<u>\$ 6,035</u>

# **THE UNIVERSITY OF NEBRASKA**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)**

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

Substantially all amounts included in accounts receivable and unbilled charges represent tuition receivables, grant reimbursements, unbilled charges, patient accounts receivable, and other receivables. Balances are stated net of allowances for doubtful accounts and contractual adjustments of approximately \$14,325 and \$13,002 at June 30, 2018 and 2017, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately \$3,254 and \$3,777 at June 30, 2018 and 2017, 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. Effective July 1, 2016, NMC, the University, Clarkson, and UNMC Physicians (UNMCP) entered into a System Integration Agreement (SIA) and a successor Joint Operating Agreement (SJOA) to permanently integrate the businesses of NMC and UNMCP into Nebraska Medicine (NM). Should there be a dissolution of NM, the University and Clarkson will share equally in the remaining net position. As the University has an ongoing financial interest in NM, 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 NM for the years ended June 30, 2018 and 2017 totaling \$35,728 and \$34,945, respectively. In addition, to the extent that sufficient funds are available, as determined by the NM Board of Directors, the University will receive an annual capital distribution. Distributions of \$8 million and \$6 million, shared equally by the venturers, were declared and paid for both 2018 and 2017, respectively.

Separate financial statements of NM can be obtained from the Nebraska Medicine, 42<sup>nd</sup> Street and Dewey Avenue, Omaha, Nebraska 68105.

In addition, the University and NM have entered into an Academic Affiliation Agreement for Education and Research. In connection with the agreement, NM 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 NM. During the fiscal years ended June 30, 2018 and 2017, the University received approximately \$64,874 and \$60,586, respectively, of support in connection with the agreement.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2017 is as follows:

	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 89,773	\$ 1,500	\$ -	\$ 91,273
Construction work in progress	<u>252,972</u>	<u>134,868</u>	<u>269,000</u>	<u>118,840</u>
Total capital assets not being depreciated	<u>342,745</u>	<u>136,368</u>	<u>269,000</u>	<u>210,113</u>
Capital assets, being depreciated:				
Land improvements	262,532	38,409	816	300,125
Leasehold improvements	42,958	1,487	-	44,445
Buildings	2,745,740	222,603	13,873	2,954,470
Equipment	<u>499,150</u>	<u>43,429</u>	<u>26,157</u>	<u>516,422</u>
Total capital assets, being depreciated	<u>3,550,380</u>	<u>305,928</u>	<u>40,846</u>	<u>3,815,462</u>
Less accumulated depreciation for:				
Land improvements	88,635	10,779	685	98,729
Leasehold improvements	10,394	2,736	-	13,130
Buildings	678,499	84,864	11,608	751,755
Equipment	<u>347,503</u>	<u>41,029</u>	<u>23,770</u>	<u>364,762</u>
Total accumulated depreciation other assets	<u>1,125,031</u>	<u>139,408</u>	<u>36,063</u>	<u>1,228,376</u>
Capital assets, net	<u>\$ 2,768,094</u>	<u>\$ 302,888</u>	<u>\$ 273,783</u>	<u>\$ 2,797,199</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 91,299	\$ 838	\$ 2,364	\$ 89,773
Construction work in progress	426,895	303,010	476,933	252,972
Total capital assets not being depreciated	518,194	303,848	479,297	342,745
Capital assets, being depreciated:				
Land improvements	251,411	12,930	1,809	262,532
Leasehold improvements	40,626	2,332	-	42,958
Buildings	2,347,924	418,117	20,301	2,745,740
Equipment	470,985	51,354	23,189	499,150
Total capital assets, being depreciated	3,110,946	484,733	45,299	3,550,380
Less accumulated depreciation for:				
Land improvements	79,943	9,931	1,239	88,635
Leasehold improvements	7,901	2,493	-	10,394
Buildings	620,296	70,379	12,176	678,499
Equipment	332,194	37,308	21,999	347,503
Total accumulated depreciation other assets	1,040,334	120,111	35,414	1,125,031
Capital assets, net	\$ 2,588,806	\$ 668,470	\$ 489,182	\$ 2,768,094

## G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2018	\$ 74,581	\$ 54,105	\$ 54,189	\$ 74,497	\$ 56,438
2017	\$ 70,558	\$ 53,633	\$ 49,610	\$ 74,581	\$ 56,145

## H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2018	\$ 851,640	\$ 152,950	\$ 147,015	\$ 857,575	\$ 73,305
2017	\$ 826,625	\$ 194,260	\$ 169,245	\$ 851,640	\$ 84,530

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

Bond obligations payable at June 30, 2018 and 2017 consist of the following:

<b>Obligations under the master trust indenture:</b>	<b>Coupon Rate</b>	<b>Annual Installment</b>	<b>Principal Amount Outstanding</b>	
			<b>2018</b>	<b>2017</b>
University of Nebraska-Lincoln:				
Student Fees and Facilities:				
Series 2009B, revenue bonds	3.00 - 5.70%	\$495 - 1,840	\$ 8,400	\$ 8,880
Series 2011, revenue bonds	2.00 - 5.00%	1,460 - 4,095	62,040	63,475
Series 2012, refunding bonds	3.99 - 5.00%	1,220 - 4,560	59,565	63,020
Series 2012B, revenue bonds	1.50 - 5.00%	350 - 1,640	16,070	17,100
Series 2015A, revenue bonds	2.00 - 5.00%	1,260 - 4,100	66,615	66,615
Series 2016A, revenue bonds	3.00 - 5.00%	1,995 - 4,365	64,175	66,760
Lincoln Parking Project:				
Series 2009A&B, revenue bonds	3.50 - 6.00%	745 - 1,110	10,145	10,865
Series 2013, revenue and refunding	2.00 - 4.00%	270 - 440	5,175	5,440
Series 2015, revenue and refunding	2.00 - 5.00%	505 - 1,965	6,625	8,425
University of Nebraska at Omaha:				
Student Facilities:				
Series 2015B, revenue bonds	2.00 - 5.00%	370 - 640	8,165	8,540
Series 2016B, revenue bonds	3.75 - 5.00%	915 - 2,295	35,200	36,365
Student Housing and Parking:				
Series 2010A, revenue bonds	2.75 - 5.00%	735 - 1,175	-	12,345
Series 2010B, revenue bonds	3.00 - 5.00%	405 - 1,060	-	15,405
Series 2014, revenue bonds	1.50 - 5.00%	500 - 790	9,595	10,105
Series 2015, revenue bonds	1.20 - 5.00%	890 - 2,580	41,545	43,080
Series 2017A, revenue bonds	1.30 - 5.00%	125 - 955	14,995	-
Series 2017B, revenue bonds	1.30 - 5.00%	265 - 1,075	10,695	-
University of Nebraska at Kearney:				
Student Facilities:				
Series 2015, revenue bonds	2.00 - 3.15%	830 - 1,270	17,440	18,255
Series 2017, revenue bonds	2.00 - 4.00%	275 - 675	12,690	12,690
Total obligations under the master trust indenture			449,135	467,365
<b>Obligations of blended entities:</b>				
University of Nebraska Facilities Corporation:				
Series 2018 (UNMC Eye Institute Project)	2.40%	\$13,000	\$ 13,000	\$ -
Series 2017A (Deferred Maintenance Bonds)	4.00 - 5.00%	6,270 - 9,410	77,335	-
Series 2017B (UNO/Community Facility Refunding)	2.00 - 5.00%	535 - 2,940	36,535	-
Series 2017 (UNMC Global Experiential Learning Center)	2.00 - 5.00%	1,015 - 13,795	59,010	59,010
Series 2016 (UNL Health Center and College of Nursing)	2.00 - 5.00%	740 - 2,245	18,375	18,520
Series 2016 (Deferred Maintenance Refunding)	3.00 - 5.00%	9,885 - 10,690	30,955	40,400
Series 2016 (UNMC Cancer Center)	1.00 - 5.00%	2,070 - 2,900	31,350	35,280
Series 2016 (UNMC Utility Improvement Project)	1.75 - 5.00%	1,260 - 1,590	11,180	12,400
Series 2015 (Veterinary Diagnostic Project)	4.00%	2,680 - 4,895	12,275	16,815
Series 2015 (UNO Arena and UNL College of Business)	2.00%	180 - 6,220	18,285	25,110
Series 2015 (UNMC Qualified Energy Conservation Bonds)	4.25%	175 - 200	1,875	1,875
Series 2014A (UNMC Cancer Center)	4.00 - 5.00%	3,415 - 17,410	60,550	65,965
Series 2014B (Qualified Energy Conservation Bonds)	2.50 - 4.25%	370 - 510	4,325	4,325
Series 2013 (UNMC Cancer Center)	4.00%	6,980	6,980	13,690
Series 2011 (NCTA Education Center/Student Housing Project)	3.75% - 5.50%	85 - 1,645	6,910	7,525
Series 2003 (UNL Alexander Building Project)	4.65% - 5.00%	160 - 205	1,090	1,245
Series 2013A & B (UNO/Community Facility Project)			-	40,945
Series 2011 (Eye Institute)			-	14,740
Series 2009 (LB605)			-	6,670
Total University of Nebraska Facilities Corporation			390,030	364,515

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### Obligations of blended entities (Continued):

Nebraska Utility Corporation (NUCorp):							
Series 2010 revenue bonds	1.00 - 5.00%	\$1,350 - 2,035		\$	6,410	\$	7,760
Series 2014A revenue bonds	3.40%	6,500			6,500		6,500
Series 2014B revenue bonds	5.00%	5,500			5,500		5,500
Total NUCorp					18,410		19,760
Subtotal bonds payable					857,575		851,640
Add unamortized bond premium						69,048	61,038
Less unamortized bond discount						276	358
Total bond obligations payable						\$ 926,347	\$ 912,320

Annual maturities subject to mandatory redemption at June 30, 2018, are as follows:

	MTI		UNFC		NUCorp		Total University	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 19,520	\$ 18,275	\$ 52,365	\$ 15,584	\$ 1,420	\$ 809	\$ 73,305	\$ 34,668
2020	20,150	17,599	40,305	13,609	1,440	738	61,895	31,946
2021	19,355	16,814	59,355	12,055	1,515	666	80,225	29,535
2022	20,040	16,095	29,925	9,642	2,035	590	52,000	26,327
2023	22,070	15,270	35,455	8,285	-	496	57,525	24,051
2024-2028	103,255	62,132	104,820	24,149	-	2,480	208,075	88,761
2029-2033	96,610	40,793	48,355	7,089	12,000	2,480	156,965	50,362
2034-2038	84,900	22,915	9,755	2,588	-	-	94,655	25,503
2039-2043	48,835	7,767	9,695	943	-	-	58,530	8,710
2044-2048	14,400	951	-	-	-	-	14,400	951
Total	\$ 449,135	\$ 218,611	\$ 390,030	\$ 93,944	\$ 18,410	\$ 8,259	\$ 857,575	\$ 320,814

At June 30, 2018 and 2017, the University and trustees for these bond funds held cash and investments in the amount of approximately \$378,948 and \$350,426, respectively, which is reflected as cash and cash equivalents, 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 and recreational 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, 2018, the members of the Obligated Group are (a) the student housing, student unions, student recreation, 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 Facilities); (d) certain student housing and parking facilities at the University of Nebraska at Omaha (UNO Student Housing and Parking); and (e) the student housing facilities on the University of Nebraska at Kearney campus (UNK Student

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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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.

The University of Nebraska Medical Center Student Housing Project was removed from the Obligated Group effective June 1, 2018 as no related bonds are outstanding under the provisions of the related bond resolution.

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 member under a Related Bond Resolution (as defined in the Obligated Group).

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

### ***MTI Bond Issuances***

On December 20, 2017, the Board of Regents issued \$15,120 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2017A. The net proceeds of the bonds, together with other funds available, were used to defease \$15,405 of Series 2010B Bonds dated May 26, 2010. The refunding reduced total debt service payments by approximately \$2,589 and resulted in an economic gain of approximately \$1,646. The accounting loss of \$673 is deferred and amortized over the remaining life of the refunded issues or the life of the 2017A Bonds, whichever is shorter.

On December 20, 2017, the Board of Regents issued \$10,960 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2017B. The net proceeds of the bonds, together with other funds available, were used to advance refund \$12,345 of Series 2010 Bonds dated February 24, 2010. The refunding reduced total debt service payments by approximately \$1,501 and resulted in an economic gain of approximately \$866. The accounting loss of \$416 is deferred and amortized over the remaining life of the refunded issues or the life of the 2017B Bonds, whichever is shorter.

On May 4, 2017, the Board of Regents issued \$12,690 of University of Nebraska at Kearney Revenue Bonds, Series 2017. The net proceeds of the bonds, together with other funds available, will be used to pay the costs of acquiring, constructing, equipping, and furnishing the University Village student housing facilities on the campus of the University of Nebraska at Kearney.

On July 28, 2016, the Board of Regents issued \$66,760 of University of Nebraska-Lincoln Revenue and Refunding Bonds, Series 2016A. The net proceeds of the bonds, together with other funds available, were used to advance refund \$22,430 of Series 2008A Bonds dated June 5, 2008 and \$46,075 of Series 2009A Bonds dated January 9, 2009. The refunding reduced total debt service payments by approximately \$13,555 and resulted in an economic gain of approximately \$10,487. The accounting loss of \$6,268 is deferred and amortized over the remaining life of the refunded issues or the life of the 2016A Bonds, whichever is shorter.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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On July 28, 2016, the Board of Regents issued \$37,280 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2016B. The net proceeds of the bonds, together with other funds available, were used to advance refund \$37,445 of Series 2008 Bonds dated March 15, 2008. The refunding reduced total debt service payments by approximately \$8,627 and resulted in an economic gain of approximately \$6,577. The accounting loss of \$3,678 is deferred and amortized over the remaining life of the refunded issue or the life of the 2016B Bonds, whichever is shorter.

### *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 moneys derived from designated tuition revenues, legislative appropriations, donor gifts, and UNL 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 \$569,525 and \$528,053 at June 30, 2018 and 2017 respectively.

**UNMC Eye Institute Project, Series 2018** – In 2018, UNFC authorized the issuance of \$13,000 of UNMC Eye Institute Project Bonds, Series 2018 dated March 1, 2018.

The proceeds of the Series 2018 bonds are being used to refinance \$14,740 of UNMC Eye Institute Bonds Series 2011.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Board of Regents of the University of Nebraska.

**Deferred Maintenance Bonds, Series 2017A** – In 2017, UNFC authorized the issuance of \$77,335 of Deferred Maintenance Bonds, Series 2017A dated October 4, 2017.

The proceeds of the Series 2017A bonds will be used for continued renewal, renovation and replacement projects on the four campuses of the University of Nebraska.

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specific tuition revenue under a financing agreement with the Regents.

**UNO/Community Facility Refunding, Series 2017B** – In 2017, UNFC authorized the issuance of \$36,535 of UNO/Community Facility Refunding Bonds, Series 2017B dated October 4, 2017.

The proceeds of the Series 2017B bonds are being used to advance refund \$35,800 of UNO/Community Facility Bonds, Series 2013A. The refunding reduced total debt service payments by approximately \$1,015 and resulted in an economic gain of approximately \$866. The accounting loss of \$3,202 is deferred and amortized over the remaining life of the refunded issue or the life of the 2017B bonds, whichever is shorter.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents.

**UNMC Global Experiential Learning Center, Series 2017** – In 2017, UNFC authorized the issuance of \$59,010 UNMC Experiential Learning Center Bonds, Series 2017 dated February 15, 2017.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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The proceeds of the Series 2017 bonds, along with a Nebraska capital appropriation and other funds, are being used to construct, equip, and furnish an interprofessional Experiential Center for Enduring Learning facility (iEXCEL) at UNMC.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents. The Series 2017 Bonds are not redeemable prior to their stated maturities.

**UNL Health Center and College of Nursing Projects, Series 2016** – In 2016, the UNFC authorized the issuance of \$18,520 of Building and Refunding Bonds (Health Center and College of Nursing Projects), Series 2016 dated December 1, 2016.

The proceeds of the 2016 bonds are being used to construct, equip, and furnish a new facility for the UNMC College of Nursing-Lincoln Division combined with a new University of Nebraska-Lincoln student health center (the Project), and refund the UNFC lease rental revenue bonds (UNL Library Storage Project), Series 2004, in the principal amount of \$1,880. The refunding reduced total debt service payments by approximately \$341 and resulted in an economic gain of approximately \$271.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents, including a capital appropriation for the College of Nursing, student fees for the health center, and other available funds. Bonds maturing on or after July 15, 2026 are redeemable at par plus accrued interest.

**Deferred Maintenance Refunding, Series 2016** – In 2016, the UNFC authorized the issuance of \$40,400 of Deferred Maintenance Refunding Bonds, Series 2016 dated June 9, 2016.

The net proceeds of the Series 2016 Bonds, along with other funds, were used to defease \$43,000 UNFC Deferred Maintenance Bonds, Series 2006 dated August 15, 2006 maturing on or after July 15, 2017. The refunding reduced total debt service payments by approximately \$4,038 and resulted in an economic gain of approximately \$3,909. The accounting gain of \$178 is a deferred inflow and amortized over the life of the 2016 Bonds.

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specific tuition revenues under a financing agreement with the Regents. The Series 2016 Bonds are not redeemable prior to their stated maturities.

**UNMC Utility Improvements Project, Series 2016** – In 2016, the UNFC authorized the issuance of \$13,635 of UNMC Utility Improvement Projects Bonds, Series 2016 dated March 17, 2016.

The proceeds of the Series 2016 bonds, along with other funds, were used to construct improvements to utility facilities and related equipment at or near UNMC.

Principal and interest payments will come from moneys derived by the UNFC under a financing agreement with the Regents. The Series 2016 Bonds are not redeemable prior to their stated maturities.

**UNMC Cancer Center, 2016** – In 2016, the UNFC authorized the issuance of \$35,280 of UNMC Cancer Center Bonds, Series 2016 dated January 28, 2016.

The proceeds of the Series 2016 bonds were used to construct, equip, and furnish a comprehensive cancer center that is a portion of a larger comprehensive cancer center project with an overall budget of \$370,000 at UNMC.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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Principal and interest payments will come from lease payments received from UNMC. The Series 2016 Bonds maturing on or after February 15, 2026 are redeemable at par plus accrued interest.

**UNL Veterinary Diagnostic Center, Series 2015** – In 2015, UNFC authorized the issuance of \$16,815 of UNL Veterinary Diagnostic Center Bonds, Series 2015 dated November 5, 2015.

The proceeds of the Series 2015 bonds provide financing for a portion of the cost to construct a Veterinary Diagnostic Center at the University of Nebraska Institute of Agriculture and Natural Resources.

Principal and interest payments will come from certain appropriations made by the Nebraska Legislature. The Series 2015 Bonds are not redeemable prior to their stated maturities.

**UNO Arena and UNL College of Business, Series 2015** – In 2015, UNFC authorized the issuance of \$27,900 of UNO Arena and UNL College of Business Bonds, Series 2015 dated June 17, 2015.

The proceeds of the Series 2015 Bonds provide financing of \$7,615 for the completion of the UNO/Community Facility at the University of Nebraska at Omaha and \$20,285 for paying a portion of the costs of acquiring, constructing, equipping, and partially furnishing the College of Business building at UNL.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents. The Series 2015 Bonds are not redeemable prior to their stated maturities.

**UNMC Qualified Energy Conservation Bond, Series 2015** – In 2015, UNFC authorized the issuance of \$1,875 of UNMC Qualified Energy Conservation Bonds (Direct Pay), Taxable Series 2015, dated January 15, 2015.

The proceeds of the Series 2015 Bonds provided financing for the Energy Management and Monitoring Systems and Central Utility Plan Upgrades at UNMC.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents. The Series 2015 Bonds are not redeemable prior to their stated maturities.

**UNMC Cancer Center, Series 2014A and UNMC Qualified Energy Conservation Bond, Series 2014B** – In 2014, UNFC authorized the issuance of \$65,965 of UNMC Cancer Center Bonds, Series 2014A, and \$4,325 of UNMC Qualified Energy Conservation Bonds (Direct Pay), Series 2014B, both dated April 15, 2014.

The proceeds of the Series 2014A Bonds will be used for the Series 2014A Project that consists of the construction, equipping, and furnishing of a comprehensive cancer center that is a portion of a larger comprehensive cancer center project with an overall budget of \$370,000. The Series 2014B Project consists of financing upgrades to energy management monitoring systems in and for UNMC buildings. The total cost of the Series 2014B project is approximately \$6,000.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents. The Series 2014A Bonds are not redeemable prior to their stated maturities. The Series 2014B Bonds maturing on or after February 15, 2024 are redeemable at par plus accrued interest.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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**UNMC Cancer Research Center, Series 2013** – In 2013, 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 Series 2013 Bonds financed a portion of the larger \$370,000 Comprehensive Cancer Center noted above for the Cancer Research Center 2014 Bonds). 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 donations received to date.

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.

**NCTA Education Center/Student Housing Project, Series 2011** – 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 State Legislature. Bonds maturing on or after June 15, 2021, are redeemable at par plus accrued interest.

**UNL Alexander Building Project, Series 2003** – 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 to refund \$17,065 of outstanding Series 2001 Bonds. The net proceeds of \$16,932 plus \$2,181 of sinking fund moneys 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 UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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The Series 2014A and 2014B bonds were issued as Qualified Energy Conservation Bonds (QEBC) under provisions of the Internal Revenue Code. NUCorp expects to receive a cash subsidy payment from the United States Treasury equal to 70% of the interest payable on the Series 2014A and 2014B bonds. The subsidy payment is contingent on Federal regulations and is subject to change. NUCorp received a subsidy payment for \$192,087 and accrued a second subsidy payment of \$192,086, for a total of \$384,173, for the year ended June 30, 2018. NuCorp received a subsidy payment of \$382,939 during the year ended June 30, 2017.

### ***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, 2018 and 2017, the University, UNFC, and NUCorp are in compliance with these requirements.

## **I. CAPITAL LEASE OBLIGATIONS**

The University is presently leasing real property, buildings, and equipment with either the option to purchase or transfer of title at the expiration of the lease term.

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
2018	\$ 49,130	\$ 624	\$ 345	\$ 49,409	\$ 288
2017	\$ 48,523	\$ 1,326	\$ 719	\$ 49,130	\$ 234

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

	<b>Buildings and Properties</b>	<b>Equipment</b>	<b>Total</b>
2019	\$ 4,202	\$ 321	\$ 4,523
2020	4,223	249	4,472
2021	4,239	245	4,484
2022	4,249	52	4,301
2023	4,253	12	4,265
2024-2028	21,048	-	21,048
2029-2033	24,605	-	24,605
2034-2038	27,506	-	27,506
2039-2043	30,369	-	30,369
2044-2048	<u>13,163</u>	<u>-</u>	<u>13,163</u>
	137,857	879	138,736
Less interest and executory costs	<u>89,263</u>	<u>64</u>	<u>89,327</u>
	<u><u>\$ 48,594</u></u>	<u><u>\$ 815</u></u>	<u><u>\$ 49,409</u></u>

Capital assets held under capital lease obligations at June 30, 2018, are as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 48,572	\$ 4,820	\$ 43,752
Equipment	<u>1,451</u>	<u>405</u>	<u>1,046</u>
	<u><u>\$ 50,023</u></u>	<u><u>\$ 5,225</u></u>	<u><u>\$ 44,798</u></u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### J. HEALTH AND OTHER INSURANCE CLAIMS

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

	Self- Insurance	General Liability	Health and Dental	Total
Claim reserve, July 1, 2016	\$ 3,110	\$ 2,489	\$ 8,982	\$ 14,581
Incurred claims	-	1,792	148,530	150,322
Payments on claims	<u>(1,360)</u>	<u>(1,455)</u>	<u>(149,327)</u>	<u>(152,142)</u>
Claim reserve, June 30, 2017	1,750	2,826	8,185	12,761
Incurred claims	-	903	171,435	172,338
Payments on claims	<u>(597)</u>	<u>(945)</u>	<u>(169,297)</u>	<u>(170,839)</u>
Claim reserve, June 30, 2018	<u>\$ 1,153</u>	<u>\$ 2,784</u>	<u>\$ 10,323</u>	<u>\$ 14,260</u>

The Board of Regents provides for protection against comprehensive general liability and property losses through a partially self-insured general liability program. The self-insured program also covers the retained deductible for directors and officers liability and miscellaneous claims not covered by insurance. The Board of Regents has purchased all-risk “blanket” policies for risks not covered by the partially self-insured general liability program. These policies provide for \$1,250,000 in property coverage with a \$500 per occurrence deductible and \$1,000 aggregate deductible, \$5,000 in educators legal liability coverage with a \$1,000 per claim deductible, and \$20,000 in umbrella excess liability coverage with a \$1,000 per occurrence deductible and \$3,000 aggregate deductible. 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 1.5% 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 \$2,250 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, 2018 and 2017, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$99,809 and \$103,944, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents and investments – restricted on the statements of net position.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### 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 2018 and 2017 was approximately \$1,055,813 and \$1,025,102, respectively, of which approximately \$785,784 and \$764,859 was covered by the plan. The University's contribution during 2018 and 2017 was approximately \$61,378, or 7.81%, and \$59,653, or 7.80%, of covered payroll, respectively, and the faculty and staff's contribution was approximately \$41,253, or 5.25%, and \$40,054, 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.

### L. COMMITMENTS AND CONTINGENCIES

The University has budgeted for the construction of facilities that are estimated to cost approximately \$613,284. As of June 30, 2018, the approximate remaining costs to complete these facilities were \$315,363, which will be financed as follows:

Bond funds	\$ 186,835
Federal Funds	12,771
University funds	38,388
State capital appropriations	3,796
Private gifts, grants, and contracts	<u>73,573</u>
	<u><u>\$ 315,363</u></u>

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

The University established its Agricultural Research and Development Center (ARDC) 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.

# **THE UNIVERSITY OF NEBRASKA**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)**

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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. 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, which was completed pending acceptance of the final remedial investigation feasibility study report by the EPA. In 2011, the University received a proposed plan from the EPA for additional remedial activities, such as installation of a landfill cap, an establishment of a monitoring well network, and treatment for a groundwater contaminant. In 2013, the EPA submitted a record of decision of an approved remedy and, in 2014, the University and the EPA signed a consent decree and statement of work to complete the remediation work, which decree was approved by the United States District Court in June 2015. The University and its consultant are currently coordinating with the EPA to finalize work plans which will define the scope of remediation activities required by the EPA at the site.

Remediation efforts will encompass a thirty-year timeframe, with preliminary cost estimates approximately \$202 per year for seven years, and \$73 thereafter. A final determination is expected to be made by the EPA in calendar year 2019, at which point more exact costs will be known.

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 Nebraska Medicine (NM). The members of the faculty at the University are also members of the medical staff of NM, and in many other areas, the operations of the University and NM are integrated and overlap. The University provides certain operational and support services, as well as certain direct financial support to NM. For the fiscal years ended June 30, 2018 and 2017, NM purchased approximately \$29,763 and \$26,015 of goods and services from UNMC. In addition, during 2018 and 2017, UNMC paid NM \$14,056 and \$15,137, respectively, for support services provided by NM.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2018:

	Compensation	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 500,009	\$ 57,368	\$ 9,206	\$ -	\$ 566,583
Research	236,696	139,725	2,294	-	378,715
Public service	71,782	39,095	557	-	111,434
Academic support	118,089	35,516	109	-	153,714
Student services	28,142	7,325	391	-	35,858
Institutional support	96,922	23,354	57	-	120,333
Operation and maintenance of plant	41,049	85,823	-	-	126,872
Healthcare entities	59,085	22,244	1,758	-	83,087
Scholarships and fellowships	1,469	1,469	61,091	-	64,029
Auxiliary operations	150,242	161,142	344	-	311,728
Depreciation	-	-	-	\$ 139,408	\$ 139,408
Total expenses	<u>\$ 1,303,485</u>	<u>\$ 573,061</u>	<u>\$ 75,807</u>	<u>\$ 139,408</u>	<u>\$ 2,091,761</u>

For the year ended June 30, 2017:

	Compensation	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 495,527	\$ 58,711	\$ 6,102	\$ -	\$ 560,340
Research	223,446	126,948	1,832	-	352,226
Public service	67,179	38,297	584	-	106,060
Academic support	120,013	38,297	176	-	158,486
Student services	26,874	9,173	389	-	36,436
Institutional support	95,386	34,333	93	-	129,812
Operation and maintenance of plant	44,083	92,548	-	-	136,631
Healthcare entities	58,165	21,842	1,785	-	81,792
Scholarships and fellowships	7,532	471	52,464	-	60,467
Auxiliary operations	125,389	153,375	5,214	-	283,978
Depreciation	-	-	-	\$ 120,111	\$ 120,111
Total expenses	<u>\$ 1,263,594</u>	<u>\$ 573,995</u>	<u>\$ 68,639</u>	<u>\$ 120,111</u>	<u>\$ 2,026,339</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### O. AUXILIARY SEGMENT

The University issues revenue bonds to finance certain 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 2009B, Series 2011, Series 2012, Series 2012B, Series 2015A, and Series 2016A* – 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 – Lincoln Parking Revenue Bonds, Series 2009A, Series 2009B, Series 2013 and Series 2015* – 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 Facilities Bonds, Series 2015B and 2016B* – 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 Bonds, Series 2014, Series 2015, Series 2017A, and Series 2017B* – 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.

*UNK Student Fees and Facilities Revenue Bonds, Series 2015 and Series 2017* – The bonds are used to provide student housing and related facilities as allowed by the bond covenants for the UNK campus. Operating revenues consist primarily of rentals, food service income, and student fees.

Pledges pertaining to these issues are disclosed in Note H.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

	June 30,	
	2018	2017
<b>Condensed Statements of Net Position</b>		
Assets and Deferred Outflows of Resources		
Assets:		
Current assets	\$ 68,750	\$ 78,612
Non-current assets:		
Capital assets	549,327	553,121
Other non-current assets	<u>129,241</u>	<u>135,700</u>
Total assets	<u>747,318</u>	<u>767,433</u>
Deferred Outflows of Resources:		
Deferred loss on bond refunding	<u>16,423</u>	<u>16,228</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current liabilities	45,492	48,768
Non-current liabilities	<u>463,396</u>	<u>483,882</u>
Total liabilities	<u>508,888</u>	<u>532,650</u>
Deferred Inflows of Resources:		
Deferred service concession receipts	<u>4,576</u>	<u>5,503</u>
Net Position:		
Net investment in capital assets	79,431	77,800
Restricted:		
Expendable:		
Plant construction	25,913	26,258
Debt service	<u>128,585</u>	<u>113,284</u>
Unrestricted	<u>16,348</u>	<u>28,166</u>
Total net position	<u>\$ 250,277</u>	<u>\$ 245,508</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	<b>Years Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b>		
Operating revenues	\$ 137,564	\$ 140,275
Operating expenses:		
Depreciation	(20,157)	(18,014)
Other operating expenses	(91,434)	(91,719)
Operating income	25,973	30,542
Non-operating expense	(21,204)	(7,508)
Change in net position	4,769	23,034
Net position, beginning of year	245,508	222,474
Net position, end of year	\$ 250,277	\$ 245,508
<b>Condensed Statements of Cash Flows</b>		
Net cash flows from operating activities	\$ 47,921	\$ 47,357
Net cash flows from capital and related financing activities	(64,722)	(86,913)
Net cash flows from investing activities	1,336	12,831
Net change in cash and cash equivalents	(15,465)	(26,725)
Cash and cash equivalents, beginning of year	191,789	218,514
Cash and cash equivalents, end of year	\$ 176,324	\$ 191,789

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

### P. CONDENSED COMPONENT UNIT FINANCIAL INFORMATION

Condensed financial information, before the elimination of certain intra-University transactions, for each of the University's Component Units follows (in thousands):

#### For the year ended June 30, 2018

	<u>UTDC</u>	<u>UNFC</u>	<u>UNeHealth</u>	<u>UDA</u>	<u>SRF</u>	<u>NUCorp</u>
<b>Condensed Statement of Net Position</b>						
Assets and Deferred Outflows of Resources						
Assets:						
Current assets	\$ 10,891	\$ 32,574	\$ 4,981	\$ 917	\$ 17,020	\$ 10,838
Non-current assets						
Capital assets	1,190	-	-	36	-	60,432
Other non-current assets	-	165,219	-	-	119,429	4,790
Total assets	<u>12,081</u>	<u>197,793</u>	<u>4,981</u>	<u>953</u>	<u>136,449</u>	<u>76,060</u>
Deferred Outflows of Resources						
Deferred loss on bond refunding	-	3,016	-	-	-	371
Liabilities, Deferred Inflows of Resources, and Net Position						
Liabilities:						
Current liabilities	9,837	73,302	1,781	414	3,892	5,054
Non-current liabilities	-	367,148	-	-	-	17,272
Total liabilities	<u>9,837</u>	<u>440,450</u>	<u>1,781</u>	<u>414</u>	<u>3,892</u>	<u>22,326</u>
Deferred Inflows of Resources						
Deferred service concession arrangement receipts	-	642	-	-	-	-
Net Position:						
Net investment in capital assets	1,190	-	-	-	-	42,932
Restricted:						
Expendable	-	-	-	-	43,768	-
Plant construction	-	114,155	-	-	-	-
Debt service	-	46,842	-	-	-	3,569
Unrestricted	<u>1,054</u>	<u>(401,280)</u>	<u>3,200</u>	<u>539</u>	<u>88,789</u>	<u>7,604</u>
Total net position	<u>\$ 2,244</u>	<u>\$ (240,283)</u>	<u>\$ 3,200</u>	<u>\$ 539</u>	<u>\$ 132,557</u>	<u>\$ 54,105</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	<u>UTDC</u>	<u>UNFC</u>	<u>UNeHealth</u>	<u>UDA</u>	<u>SRF</u>	<u>NUCorp</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>						
Operating revenues	\$ 20,019	\$ -	\$ 7,138	\$ 2,537	\$ 7,528	\$ 30,406
Operating expenses:						
Depreciation	322	-	-	40	-	2,146
Other operating expenses	<u>29,930</u>	<u>1,013</u>	<u>6,303</u>	<u>2,410</u>	<u>(389)</u>	<u>20,297</u>
Operating income	<u>(10,233)</u>	<u>(1,013)</u>	<u>835</u>	<u>87</u>	<u>7,917</u>	<u>7,963</u>
Non-operating income (expense)	10,659	9,150	-	-	2,874	(372)
Increase (decrease) in net position	426	8,137	835	87	10,791	7,591
Net position - beginning of year	<u>1,818</u>	<u>(248,420)</u>	<u>2,365</u>	<u>452</u>	<u>121,766</u>	<u>46,514</u>
Net position - end of year	<u>\$ 2,244</u>	<u>\$ (240,283)</u>	<u>\$ 3,200</u>	<u>\$ 539</u>	<u>\$ 132,557</u>	<u>\$ 54,105</u>
<b>Condensed Statement of Cash Flows</b>						
Net cash flows from operating activities	\$ (8,654)	\$ -	\$ 757	\$ 28	\$ 1,220	\$ 10,659
Net cash flows from noncapital financing activities	-	-	-	-	(392)	-
Net cash flows from capital and related financing activities	10,420	42,259	-	-	-	(9,059)
Net cash flows from investing activities	<u>(129)</u>	<u>3,366</u>	<u>-</u>	<u>(10)</u>	<u>782</u>	<u>(615)</u>
Net change in cash and cash equivalents	1,637	45,625	757	18	1,610	985
Cash and cash equivalents - beginning of year	<u>3,983</u>	<u>144,129</u>	<u>2,239</u>	<u>536</u>	<u>31</u>	<u>7,645</u>
Cash and cash equivalents - end of year	<u>\$ 5,620</u>	<u>\$ 189,754</u>	<u>\$ 2,996</u>	<u>\$ 554</u>	<u>\$ 1,641</u>	<u>\$ 8,630</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

For the year ended June 30, 2017

	<u>UTDC</u>	<u>UNFC</u>	<u>UNeHealth</u>	<u>UDA</u>	<u>SRF</u>	<u>NUCorp</u>
<b>Condensed Statement of Net Position</b>						
Assets and Deferred Outflows of Resources						
Assets:						
Current assets	\$ 8,316	\$ 34,377	\$ 3,442	\$ 870	\$ 25,184	\$ 9,088
Non-current assets						
Capital assets	-	-	-	66	-	58,430
Other non-current assets	1,173	120,182	-	-	98,931	4,505
Total assets	<u>9,489</u>	<u>154,559</u>	<u>3,442</u>	<u>936</u>	<u>124,115</u>	<u>72,023</u>
Deferred outflows of Resources						
Deferred loss on bond refunding	-	-	-	-	-	453
Liabilities, Deferred Inflows of Resources, and Net Position						
Liabilities:						
Current liabilities	7,671	82,063	1,077	484	599	7,141
Non-current liabilities	-	319,976	-	-	1,750	18,821
Total liabilities	<u>7,671</u>	<u>402,039</u>	<u>1,077</u>	<u>484</u>	<u>2,349</u>	<u>25,962</u>
Deferred Inflows of Resources						
Deferred service concession arrangement receipts	-	940	-	-	-	-
Net Position:						
Net investment in capital assets	1,145	-	-	-	-	36,656
Restricted:						
Expendable	-	-	-	-	40,766	-
Plant construction	-	84,055	-	-	-	-
Debt service	-	47,310	-	-	-	2,867
Unrestricted	<u>673</u>	<u>(379,785)</u>	<u>2,365</u>	<u>452</u>	<u>81,000</u>	<u>6,991</u>
Total net position	<u>\$ 1,818</u>	<u>\$ (248,420)</u>	<u>\$ 2,365</u>	<u>\$ 452</u>	<u>\$ 121,766</u>	<u>\$ 46,514</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	<b>UTDC</b>	<b>UNFC</b>	<b>UNeHealth</b>	<b>UDA</b>	<b>SRF</b>	<b>NUCorp</b>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>						
Operating revenues	\$ 13,377	\$ -	\$ 5,192	\$ 2,343	\$ 6,550	\$ 30,268
Operating expenses:						
Depreciation	99	-	-	39	-	2,070
Other operating expenses	<u>21,759</u>	<u>776</u>	<u>4,575</u>	<u>2,359</u>	<u>(831)</u>	<u>20,441</u>
Operating income	<u>(8,481)</u>	<u>(776)</u>	<u>617</u>	<u>(55)</u>	<u>7,381</u>	<u>7,757</u>
Non-operating income (expense)	9,505	(420)	-	-	5,655	(425)
Increase (decrease) in net position	1,024	(1,196)	617	(55)	13,036	7,332
Net position - beginning of year	<u>794</u>	<u>(247,224)</u>	<u>1,748</u>	<u>507</u>	<u>108,730</u>	<u>39,182</u>
Net position - end of year	<u>\$ 1,818</u>	<u>\$ (248,420)</u>	<u>\$ 2,365</u>	<u>\$ 452</u>	<u>\$ 121,766</u>	<u>\$ 46,514</u>
<b>Condensed Statement of Cash Flows</b>						
Net cash flows from operating activities	\$ (10,083)	\$ -	\$ 576	\$ (98)	\$ 3,341	\$ 9,810
Net cash flows from noncapital financing activities	8,688	-	-	-	2,120	-
Net cash flows from capital and related financing activities	(93)	31,549	-	-	-	(16,787)
Net cash flows from investing activities	-	2,631	-	-	(8,631)	9,460
Net change in cash and cash equivalents	(1,488)	34,180	576	(98)	(3,170)	2,483
Cash and cash equivalents - beginning of year	<u>5,471</u>	<u>109,949</u>	<u>1,663</u>	<u>634</u>	<u>3,201</u>	<u>5,162</u>
Cash and cash equivalents - end of year	<u>\$ 3,983</u>	<u>\$ 144,129</u>	<u>\$ 2,239</u>	<u>\$ 536</u>	<u>\$ 31</u>	<u>\$ 7,645</u>

# **THE UNIVERSITY OF NEBRASKA**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)**

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### **Q. SUBSEQUENT EVENTS**

On August 11, 2017, UNFC authorized the issuance of deferred maintenance bonds in one or more series not to exceed in the aggregate a total of \$200,000 dated the date or dates to be determined by UNFC. On July 25, 2018, \$94,275 of bonds were issued under this authority. This new issuance authorized by the Nebraska One Hundred Fourth Legislature (LB957) extends the University's deferred maintenance initiative. Funding to repay of the bonds include a capital appropriation and designated tuition revenue. A previous bond issuance under this authority was made for \$77,335 on October 4, 2017.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 17, 2018, the date at which the financial statements were available to be issued.

### **R. UNIVERSITY OF NEBRASKA FOUNDATION**

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

Although the University does not control the timing or amount of receipts from the Foundation, the resources that the Foundation holds and invests, or the income thereon, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation are primarily used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements. Based on the Foundation's audited financial statements as of June 30, 2018 and 2017, the Foundation's net assets (including unrealized gains) totaled \$2,058,973 and \$1,948,432, respectively.

During the years ended June 30, 2018 and 2017, the Foundation contributed \$135 million and \$93 million, respectively, to the University for academic support, student assistance, faculty assistance, research, museums, and libraries. In addition, the Foundation provided capital gifts of \$45 million and \$100 million during 2018 and 2017, respectively, to the University. These contributions provided support for several projects, including the construction of the UNMC Cancer Center Projects and several UNL Athletics Capital Projects.

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### S. 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 subsidiaries, UNF Investments, LLC, and UNF Charitable Gift Fund (UNFCGF). All significant intercompany accounts and transactions have been eliminated upon consolidation.

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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles.

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.

Revenue is 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 (decreases) 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. At times, the Foundation receives requests by donors or their designees to change the use for which the gifts were originally intended. The requests are reviewed by the Foundation for approval. Approved changes, depending on the donor's request, may result in the reclassification due to change in donor intent in the consolidated statements of activities.

##### *(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 UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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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) Gifts, Bequests, and Life Insurance Proceeds*

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

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

Investments and temporary investments in equity securities with readily determinable fair values and debt 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, or 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 hedge funds and limited partnerships, the Foundation records these investments 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 recorded at fair value which is estimated based on net asset value of the respective company.

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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Temporary investments comprise short-term investments used to maintain liquidity and are comprised mainly of a mix of U.S., state, and local government fixed income securities and corporate bonds. Investments comprise a mix of equities, fixed income, other investments, and alternative investments, which have a longer term focus (generally investing endowment funds).

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.

Included in investment income is a management fee charged to accounts within each net asset class for which the Foundation manages investments. This management fee is charged based on the market value and type of investments managed. These fees are used for the administration of the Foundation's management and fund-raising operations. During the years ended June 30, 2018 and 2017, \$20,214 and \$20,465, respectively, was charged to temporarily restricted investment income and credited to unrestricted investment income in the consolidated statements of activities related to the management fee for endowment funds. Also, included in unrestricted investment income in the consolidated statements of activities for the years ended June 30, 2018 and 2017 is \$4,967 and \$5,173, respectively, of a management fee charged to agency funds.

### *(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 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 \$335 million and \$326 million at June 30, 2018 and 2017 and were held on behalf of the University of Nebraska and other related entities.

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

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

### ***(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. The Foundation believes it is no longer subject to incomes tax examinations for years prior to 2014. During 2018 and 2017, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting both for-profit and not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees, changes to unrelated business income, as well as their ability to advance refund income bonds. In addition, tax-exempt entities may be impacted through certain for-profit subsidiaries and/or joint ventures based on the Act's provision for tax rates, measurement of deferred taxes as well as other limitations on deductions. The Act's provisions may also impact donor incentives for charitable giving. Management is currently assessing the overall impact of the Act and its impact on the consolidated financial statements.

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

The preparation of consolidated financial statements in accordance with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### ***(k) New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 provides a single model for recognizing revenue arising from contracts with customers and supersedes current revenue recognition guidance. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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goods or services and will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective. This ASU will become effective for the Foundation beginning in fiscal year 2020. The guidance permits entities to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Foundation is currently evaluating the impact the adoption will have on its consolidated financial statements and related disclosures. The Foundation has not yet selected a transition method nor has it determined the effect ASU No. 2014-09 will have on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Foundation is permitted to make an accounting policy election by class of underlying asset to recognize lease assets and lease liabilities. Further ASU 2016-02 requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Foundation to adopt the standard using a modified retrospective approach and adoption beginning in fiscal year 2020. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial position, statement of activities, and cash flows.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. The guidance changes how not-for-profit entities report net asset classes, expenses, investment return, and liquidity in their financial statements. This ASU will become effective for the Foundation beginning in fiscal year 2019. Retrospective application is required in the year of adoption. The Foundation is currently evaluating the impact on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard.

### (2) Fair Value Investments

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 UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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.

The tables below present the balances of assets measured at June 30, 2018 and 2017 at estimated fair value on a recurring basis.

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Certificates of deposit, savings, and money market funds	\$ 9,750	\$ 9,714	\$ 36	\$ —
U.S. government securities and sovereign debt	38,311	—	38,311	—
International bonds	19,479	—	19,479	—
Corporate bonds	65,997	—	65,997	—
Common stock	515,833	485,252	—	30,581
Mutual funds – equity	86,528	86,528	—	—
Mutual funds – fixed income	126,854	126,854	—	—
Preferred stock	655	—	655	—
Commingled funds – public equity	335,843	—	335,843	—
Commingled funds – diversified real assets	38,929	—	38,929	—
Index funds – commodities	16,584	16,584	—	—
Index funds – public equity	209,493	209,493	—	—
Investments measured at net asset value <sup>(1)</sup> :				
Hedge funds	169,380	—	—	—
Limited partnerships	89,870	—	—	—
Temporary Investments:				
U.S. treasuries	102,463	—	102,463	—
Certificates of deposit and money funds	546	46	500	—
State government securities	26,212	—	26,212	—
Local government securities	30,687	—	30,687	—
Corporate bonds	138,861	—	138,861	—
Exchange traded funds – income	101,584	101,584	—	—
Total	\$ 2,123,859	\$ 1,036,055	\$ 797,973	\$ 30,581
Liabilities:				
Annuities payable	\$ 16,644	\$ —	\$ 16,644	\$ —

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Certificates of deposit, savings, and money market funds	\$ 15,228	\$ 15,148	\$ 80	\$ —
U.S. government securities and sovereign debt	35,348	—	35,348	—
State government securities	156	—	156	—
Local government securities	124	—	124	—
International bonds	20,055	—	20,055	—
Corporate bonds	65,938	—	65,938	—
Common stock	504,238	477,074	—	27,164
Mutual funds – equity	83,356	83,356	—	—
Mutual funds – fixed income	133,266	133,266	—	—
Preferred stock	688	—	688	—
Commingled funds – public equity	282,828	—	282,828	—
Commingled funds – diversified real assets	35,098	—	35,098	—
Index funds – commodities	12,782	12,782	—	—
Index funds – public equity	219,694	219,694	—	—
Investments measured at net asset value <sup>(1)</sup> :				
Hedge funds	154,095	—	—	—
Limited partnerships	62,878	—	—	—
Temporary Investments:				
U.S. treasuries	110,880	—	110,880	—
Certificates of deposit and money funds	66,950	66,950	—	—
State government securities	37,241	—	37,241	—
Local government securities	48,143	—	48,143	—
Corporate bonds	85,027	—	85,027	—
Exchange traded funds – equity	24,926	24,926	—	—
Total	<u>\$ 1,998,939</u>	<u>\$ 1,033,196</u>	<u>\$ 721,606</u>	<u>\$ 27,164</u>
Liabilities:				
Annuities payable	\$ 19,167	\$ —	\$ 19,167	\$ —

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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 years ended June 30, 2018 and 2017.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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, 2016	\$ 23,757
Net unrealized gains	3,407
	<hr/>
Balance, June 30, 2017	27,164
Net unrealized gains	3,417
	<hr/>
Balance, June 30, 2018	\$ 30,581
	<hr/>

### (3) Investments

Investments consist of the following at June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>Investments stated at fair value:</b>		
Certificates of deposit, savings, and money market funds	\$ 9,750	\$ 15,228
U.S. government securities and sovereign debt	38,311	35,348
State government securities	-	156
Local government securities	-	124
International bonds	19,479	20,055
Corporate bonds	65,997	65,938
Common stock	515,833	504,238
Mutual funds – equity	86,528	83,356
Mutual funds – fixed income	126,854	133,266
Preferred stock	655	688
Limited partnerships	89,870	62,878
Commingled funds – public equity	335,843	282,828
Commingled funds – diversified real assets	38,929	35,098
Index funds – commodities	16,584	12,782
Index funds – public equity	209,493	219,694
Hedge funds	169,380	154,095
<b>Investments stated at other than fair value:</b>		
Real estate	27,627	26,009
Real estate mortgage and contracts	793	2,218
Other	1,904	2,660
Cash value of life insurance	2,294	2,830
Annuity contracts	158	158
	<hr/>	<hr/>
	\$ 1,756,282	\$ 1,659,647

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	<b>2018</b>	<b>2017</b>
Temporary investments stated at fair value:		
U.S. treasuries	\$ 102,463	\$ 110,880
Certificates of deposit and money market funds	546	66,950
State government securities	26,212	37,241
Local government securities	30,687	48,143
Corporate bonds	138,861	85,027
Exchange traded funds – income	–	24,926
Exchange traded funds – equity	101,584	–
Temporary investments stated at other than fair value:		
Real estate	24	24
	<hr/> <b>\$ 400,377</b>	<hr/> <b>\$ 373,191</b>

The estimated value of hedge funds and limited partnerships 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, 2018 and 2017:

	<b>2018</b>				
	<b>Net asset value</b>	<b>Unfunded commitments</b>	<b>*Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>	
Private equity/venture capital	\$ 68,285	\$ 100,814	N/A	N/A	
Natural resources	9,012	19,435	N/A	N/A	
Real asset funds	12,573	17,064	N/A	N/A	
Hedge funds:					
Domestic long/short	38,472	–	q/sa/a	90-360 days	
Global long/short	9,412	–	q/sa/a	90-360 days	
Multiple strategies	87,306	–	q/sa/a	90-360 days	
Credit strategies	34,190	–	q/sa/a	90-360 days	
	<hr/> <b>\$ 259,250</b>	<hr/> <b>\$ 137,313</b>			

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

Included in hedge funds above, is one fund with a rolling redemption period, which as of June 30, 2018, approximately \$8 million cannot be redeemed without fees for a period of at least 18 months. For private equity/venture capital and real asset funds, these investments cannot be redeemed with the investees, but instead the Foundation will receive distributions through the liquidation of the underlying assets of the investees. At June 30, 2018, the Foundation expects these funds to liquidate over the next 3-10 years.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2017				
	<b>Net asset value</b>	<b>Unfunded commitments</b>	<b>*Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>	
Private equity/venture capital	\$ 46,915	\$ 37,068	N/A	N/A	
Natural resources	5,075	7,978	N/A	N/A	
Real asset funds	10,888	12,183	N/A	N/A	
Hedge funds:					
Domestic long/short	19,627	—	q/sa/a	90-360 days	
Global long/short	26,802	—	q/sa/a	90-360 days	
Multiple strategies	64,575	—	q/sa/a	90-360 days	
Credit strategies	43,091	—	q/sa/a	90-360 days	
	<b>\$ 216,973</b>	<b>\$ 57,229</b>			

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

Included in hedge funds above, are two funds with rolling redemption periods, which as of June 30, 2017, approximately \$17 million cannot be redeemed without fees for a period of at least 18 months. For private equity/venture capital and real asset funds, these investments cannot be redeemed with the investees, but instead the Foundation will receive distributions through the liquidation of the underlying assets of the investees. At June 30, 2017, the Foundation expects these funds to liquidate over the next 3-10 years.

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

### (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, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Gross amount due in:		
One year or less	\$ 65,891	\$ 84,634
One to five years	139,425	131,195
More than five years	7,397	12,385
	<hr/> 212,713	<hr/> 228,214
Less discount to present value	19,047	19,964
	<hr/> 193,666	<hr/> 208,250
Less allowance for doubtful accounts	5,810	6,247
	<hr/> \$ 187,856	<hr/> \$ 202,003

The discount will be recognized as contribution income in years 2019 through 2044.

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, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Land	\$ 8,314	\$ 8,314
Buildings	40,660	40,650
Leasehold improvements	3,578	3,578
Automobiles	168	153
Furniture, equipment, and software	<hr/> 10,362	<hr/> 10,170
	63,082	62,865
Less accumulated depreciation	<hr/> 12,626	<hr/> 10,732
Net property and equipment	<hr/> \$ 50,456	<hr/> \$ 52,133

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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### (6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rate used for the establishment of the liability was 2.8% for the years 2018 and 2017. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. Liabilities associated with these agreements as of June 30, 2018 and 2017 are \$16,644 and \$19,167, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position. Annuity obligations are adjusted annual for actuarial changes in life expectancy. The increases and decreases to the liability are reflected as temporarily restricted or unrestricted change in the value of split-interest agreements, which is consistent with the method used to initially record the contribution.

### (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, the Medical Center in Omaha, and Nebraska Medicine. The purposes include scholarships, fellowships, research, academic support, and campus building and improvements. Included in temporarily and permanently restricted assets are the net assets of UNFCGF. The net assets of UNFCGF are restricted for distribution to qualified 501(c)(3) organizations, including the Foundation, at the request of the donor and approval by the Grants Committee of UNFCGF. 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 temporarily and permanently restricted net assets as of June 30, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Temporarily restricted – charitable trusts and annuities	\$ 24,714	\$ 25,740
Temporarily restricted – available for specific purposes	996,600	941,118
Permanently restricted – endowment	1,011,145	968,067
	<hr/> <u>\$ 2,032,459</u>	<hr/> <u>\$ 1,934,925</u>

The Foundation had unrestricted net assets of \$26,514 and \$13,507 at the end of 2018 and 2017, respectively. Net assets of \$178,569 and \$193,761 were released from donor restrictions during 2018 and 2017 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's endowment consists of approximately 5,300 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by U.S. GAAP, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

The Board of Directors of the Foundation has interpreted NUPMIFA as allowing the Foundation to appropriate the expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Interest, dividends, and net appreciation of the donor-restricted endowment funds are classified according to donor stipulations, if any. Absent any donor-imposed restrictions, interest, dividends, and net appreciation of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2018 and 2017 is as follows:

	2018			Total net endowment assets
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ (21,151)	\$ 381,466	\$ 1,011,145	\$ 1,371,460
Board-designated endowment funds	27,047	—	—	27,047
Endowment totals	<u>\$ 5,896</u>	<u>\$ 381,466</u>	<u>\$ 1,011,145</u>	<u>\$ 1,398,507</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Donor-restricted endowment funds	\$ (31,875)	\$ 346,451	\$ 968,067	\$ 1,282,643
Board-designated endowment funds	26,573	—	—	26,573
Endowment totals	<u>\$ (5,302)</u>	<u>\$ 346,451</u>	<u>\$ 968,067</u>	<u>\$ 1,309,216</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	\$ (5,302)	\$ 346,451	\$ 968,067	\$ 1,309,216
Contributions	904	5,514	42,324	48,742
Investment income, net of expenses	—	4,869	—	4,869
Realized and unrealized gains, net	11,482	79,800	—	91,282
Amounts appropriated for expenditure	(1,188)	(54,414)	—	(55,602)
Reclassification due to change in donor intent	—	(754)	754	—
Endowment net assets, end of year	<u>\$ 5,896</u>	<u>\$ 381,466</u>	<u>\$ 1,011,145</u>	<u>\$ 1,398,507</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets	
Endowment net assets, beginning of year	\$ (34,601)	\$ 304,084	\$ 921,694	\$ 1,191,177	
Contributions	323	137,572	31,096	168,991	
Investment income, net of expenses	—	7,774	—	7,774	
Realized and unrealized gains (losses), net	27,797	(34,037)	—	(6,240)	
Amounts appropriated for expenditure	1,179	(53,665)	—	(52,486)	
Reclassification due to change in donor intent	—	(15,277)	15,277	—	
Endowment net assets, end of year	<u>\$ (5,302)</u>	<u>\$ 346,451</u>	<u>\$ 968,067</u>	<u>\$ 1,309,216</u>	

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

The Foundation has adopted investment and spending policies, approved by the Board of Directors of the Foundation, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities, and illiquid alternative investments that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.25%, 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 6.0% per year net of investment management fees and investment operations expenses, 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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. The Foundation considers funds for which the fair value of the assets is less than the value of all original contributions to the fund to be “under water” funds. Deficiencies of this nature reported in unrestricted net assets were \$(21,151) and \$(31,875) as of June 30, 2018 and 2017, respectively. Funds of this nature result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs as deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)

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

The Foundation has a policy of appropriating for distribution each year 4.25% of the average fair market value of the prior 20 quarters of the unitized endowment shares. In establishing this policy and in the annual review of the policy, the Foundation considers the long term expected return on its investment assets, the nature, and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation.

### **(9) Lease Commitments**

The minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2018 are as follows:

2019	\$ 1,107
2020	1,101
2021	1,101
2022	1,101
2023	667
Thereafter	150

### **(10) Notes Payable**

During the year ended June 30, 2016, the Foundation entered into an agreement resulting in the acquisition of certain properties. The transaction included the purchase of certain properties valued at \$47.5 million in exchange for an interest free note of \$18 million. The note was recorded at its present value and the imputed interest expense is being recognized over the life of the loan. The \$18 million is due in full in 2019. In addition, the Foundation agreed to lease certain space back over 36 months at a nominal amount. In connection with these transactions, in the year ended June 30, 2016, the Foundation recognized a net noncash contribution of \$19.1 million. During the years ended June 30, 2018 and 2017, the Foundation recognized imputed interest of \$588 and \$589 related to the interest free loan.

### **(11) 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 5.5% of salary, respectively, unless grandfathered in under previous terms, which allowed for a 6.5% match instead of the 5.5%. The Foundation contributions to the plan for the years ended June 30, 2018 and 2017 were \$1,048 and \$954, respectively.

# **THE UNIVERSITY OF NEBRASKA**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2018 and 2017 (Thousands)**

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### **(12) Contingencies and Commitments**

The Foundation is involved in several legal actions in the ordinary course of business. 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.

### **(13) Subsequent Events**

In preparing the consolidated financial statements, the Foundation has evaluated subsequent events for potential recognition or disclosure through September 28, 2018, the date the consolidated financial statements were available to be issued.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

#### 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, 2018 and 2017, 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 17, 2018. Our report includes a reference to other auditors who audited the financial statements of the University Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group under the Master Trust Indenture, as described in our report on the University's financial statements. The financial statements of the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

#### **Internal Control Over Financial Reporting**

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. 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.

### **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 compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **University's Findings**

We did note certain other matters that we reported to management of the University in a separate letter dated December 17, 2018.

### **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 University'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.



Lincoln, Nebraska  
December 17, 2018

Mark Avery, CPA  
Assistant Deputy Auditor