

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of the University of Nebraska (the University) (a component unit of the State of Nebraska) as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the discretely presented financial statements of the University of Nebraska Foundation (the Foundation), a component unit of the University. Those financial statements were audited by other auditors, Dana F. Cole & Company, LLP, whose report has been furnished to us and appears herein, and our opinion insofar as it relates to the discretely presented financial statements of the Foundation is based solely on the report of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by Dana F. Cole & Company, LLP, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and the discretely presented component unit of the University, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

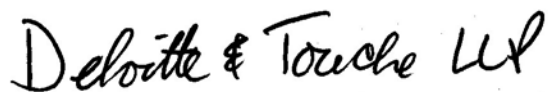
As discussed in Note A to the financial statements, the University changed its financial statement presentation to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14 as of July 1, 2003.

Management's discussion and analysis on pages 4 – 13 is not a required part of the basic financial statements, but is supplementary information required by the GASB. This supplementary information is

the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the University's management. This additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2004, on our consideration of the University's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 30, 2004
Lincoln, Nebraska

DANA F. COLE & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1248 O STREET, SUITE 500

LINCOLN, NEBRASKA 68508

INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Nebraska Foundation
Lincoln, Nebraska

We have audited the accompanying consolidated statement of financial position of the University of Nebraska Foundation as of June 30, 2004, and the related consolidated statements of activities and cash flows the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Nebraska Foundation at June 30, 2004, and the results of its activities and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dana F. Cole + Company, LLP

Lincoln, Nebraska
August 6, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004 (UNAUDITED)
(Columnar Amounts in Thousands)

Introduction

This discussion and analysis is designed to provide an overview of the financial position and activities of the University of Nebraska (the University) for the year ended June 30, 2004. 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.

Student Enrollment

Campus	Fall Semester				
	1999	2000	2001	2002	2003
UNL	22,142	22,268	22,764	22,988	22,559
UNMC	2,590	2,695	2,724	2,819	2,865
UNO	13,264	13,479	14,143	14,451	13,997
UNK	<u>6,780</u>	<u>6,506</u>	<u>6,426</u>	<u>6,395</u>	<u>6,379</u>
Total	<u>44,776</u>	<u>44,948</u>	<u>46,057</u>	<u>46,653</u>	<u>45,800</u>

The statements for the University of Nebraska include five blended entities, those being the University of Nebraska Facilities Corporation (UNFC), the University Medical Associates (UMA), UNEMed, the

University of Nebraska Dental Associates (UDA), and the Nebraska Utility Corporation (NUCorp). Additional information regarding these entities is described in the footnotes to the statements.

The University adopted the guidance of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, An Amendment of GASB 14*, as of July 1, 2003. This Statement provides guidance to determine whether certain organizations for which the University is not financially accountable should be reported as a component unit based on the nature and significance of the relationship. As a result of this guidance, the University of Nebraska Foundation's (the Foundation) financial statements are discreetly presented with the University's financial statements for the year ended June 30, 2004. Management's discussion and analysis relates only to the University of Nebraska 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 of Nebraska.

In the fall of 2003, the University's enrollment (head count) was approximately 46,000 on the four campuses. Fall enrollments have increased 2% during the five years ended 2003. This increase occurred primarily at the UNO, UNL and UNMC campuses, which reflect 5%, 2%, and 10% increases, respectively, for the same five year period. The number of students enrolled in graduate and professional programs was 10,732 representing 23% of the student body, reflecting the University's commitment to its increasing prominence as a major research institution.

Financial and Operating Highlights

- ***Growth in Net Assets.*** Net assets of the University grew by approximately 6% indicating continued efforts to improve the University's financial position. Growth in unrestricted net assets, also at 6%, is attributable to several factors. University management aggressively managed their budgets to conserve resources to stabilize an uncertain level of state appropriation. Budget savings were augmented by increases in library and enrollment service fees. Unrestricted net assets represent about two months of total operating expenses before depreciation and health and other insurance claims. Maintenance of a prudent level of reserves is key to the long-term success of the University.
- ***New Capital Construction.*** Several capital construction projects were completed during the year including the Durham Research Center and the acquisition of the Scott Village Housing Project. The University also completed the Alexander Building Project and a new transportation services building.
- ***Increase in Federal Grants and Contracts.*** Revenues from federal grants and contracts rose 20% over the prior year. The growth in federal funding is indicative of the high priority the University has placed on seeking new research funding and fuels other successes in recruitment and retention of high performing students and faculty.
- ***Enrollment.*** Enrollment, both in terms of headcount and full-time equivalents, declined only slightly in spite of demographic shifts in Nebraska.
- ***Bond Refunding Transactions.*** The University took advantage of low interest rates during the year and refinanced two revenue bond issues by issuing refunding bonds totaling \$15 million. The combined effect of issuing the refunding bonds will reduce total debt service payments by \$1.4 million, resulting in an economic gain of \$.5 million.

Using the Financial Statements

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

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

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

Capital assets are presented net of accumulated depreciation.

Net assets are divided into three parts:

- Invested in capital assets: the University's total investment in capital assets less accumulated depreciation and outstanding bond obligations incurred to acquire, construct or improve those assets.
- Restricted net assets:
 - Expendable: funds externally restricted by creditors, grantors or contributors and includes grant and research funds, student loan programs, and funds for plant construction and debt service on bond obligations.
 - Nonexpendable: permanent endowments and an investment in joint venture.
- Unrestricted net assets: comprised of balances designated as quasi endowments by the Board of Regents of \$28 million, healthcare blended entities of \$56 million, and the balance representing designated departmental balances and funds for encumbrances and working capital.

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

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

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

Condensed Financial Statements and Analysis

Condensed Statements of Net Assets

	June 30,	
	2004	2003
Assets:		
Current assets	\$ 682,405	\$ 560,853
Capital assets, net of accumulated depreciation	998,446	922,617
Other non-current assets	431,875	391,334
Total assets	<u>2,112,726</u>	<u>1,874,804</u>
Liabilities:		
Current liabilities	177,844	166,096
Non-current liabilities	<u>440,949</u>	<u>307,240</u>
Total liabilities	<u>618,793</u>	<u>473,336</u>
Net Assets:		
Invested in capital assets, net of related debt	573,740	628,781
Restricted for:		
Nonexpendable:		
Permanent endowment	174,577	145,297
Investment in joint venture	147,866	131,516
Expendable:		
Externally restricted funds	120,274	109,879
Loan funds	41,852	40,914
Plant construction	141,947	81,423
Debt service	76,734	60,041
Unrestricted	<u>216,943</u>	<u>203,617</u>
Total net assets	<u>\$1,493,933</u>	<u>\$1,401,468</u>

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

	Year Ended June 30,	
	2004	2003
Operating revenues	\$ 845,185	\$ 761,628
Operating expenses	<u>1,271,329</u>	<u>1,219,153</u>
Operating loss	(426,144)	(457,525)
Non-operating revenues:		
State of Nebraska non-capital appropriations	390,188	412,395
Gifts	46,625	47,506
Investment income	31,518	3,275
Other non-operating revenues	<u>22,768</u>	<u>16,899</u>
Net non-operating revenues	<u>491,099</u>	<u>480,075</u>
Income before other revenues, expenses, gains or losses	64,955	22,550
Other revenues, expenses, gains or losses	<u>27,510</u>	<u>41,947</u>
Increase in net assets before change in accounting principle	92,465	64,497
Cumulative effect of a change in accounting principle	<u>-</u>	<u>(15,572)</u>
Increase in net assets	92,465	48,925
Net assets, beginning of year	<u>1,401,468</u>	<u>1,352,543</u>
Net assets, end of year	<u><u>\$ 1,493,933</u></u>	<u><u>\$ 1,401,468</u></u>

Analysis of Financial Position. Cash and cash equivalents represent the preponderance of current assets of the University. Unrestricted cash and cash equivalents grew during the year from \$177 million to \$208 million. Most of this change in cash reflects a concerted effort to decrease fiscal 2003-2004 spending by deans, directors and administrative personnel to establish reserves to stabilize college budgets during the current biennium. Restricted cash increases represent unspent but committed bond proceeds on deposit with trustees.

Non-current assets of the University are dominated by the University's investment in physical plant. At June 30, 2004, the University had approximately one billion invested in capital assets, net of accumulated depreciation of \$472 million. Net investment in physical plant grew primarily from the Durham Research Center and the Scott Village Housing Project. For fiscal 2004, the University's capital assets increase of \$75 million consists of net capital additions of \$128 million less depreciation of \$52 million. This enhancement of facilities is largely due to the University's ability to gain private support in creating new classrooms, research and support facilities and continued efforts to improve student housing facilities.

Unrestricted net assets grew from \$204 million in 2003 to \$217 million in fiscal 2004. This is primarily due to the change in cash discussed earlier in this section along with a conscious effort by management to increase self-insurance reserves. These insurance reserves are considered by accounting definitions to be part of "unrestricted" funds along with other amounts attributable to University quasi endowments (\$28 million) and the capital of University Medical Associates (\$56 million), an affiliated entity encompassing the practice plan group at UNMC.

Analysis of Operations – Overview. The University generated \$845 million of operating revenues during 2004, an increase of \$89 million over last year, while operating expenses increased to \$1,271 million, an increase of \$56 million. These changes reduced the operating loss by \$34 million to \$426 million. As disclosed earlier, because of the mandated financial reporting regarding classification of state appropriations

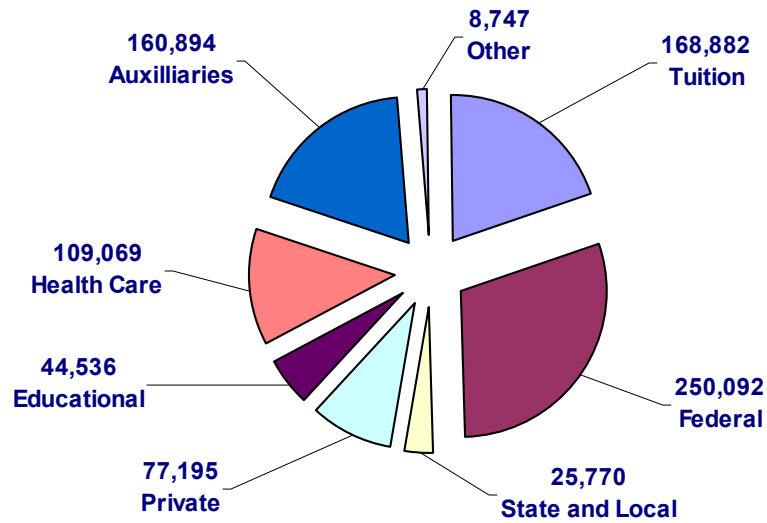
and other funding sources, statements of activities for large public land-grant universities will invariably report an operating loss.

The Nebraska Legislature provided \$390 million in appropriations for 2004, which was \$22 million less than the prior year. The University, in conjunction with the University of Nebraska Foundation, generated gifts amounting to approximately \$68 million and other non-operating revenues and expenses which netted an overall increase in net assets of about \$92 million.

Revenues. The University's operating revenues increased in fiscal 2004 by 12% or \$89 million. Most of the revenue sources showed increases from the prior year.

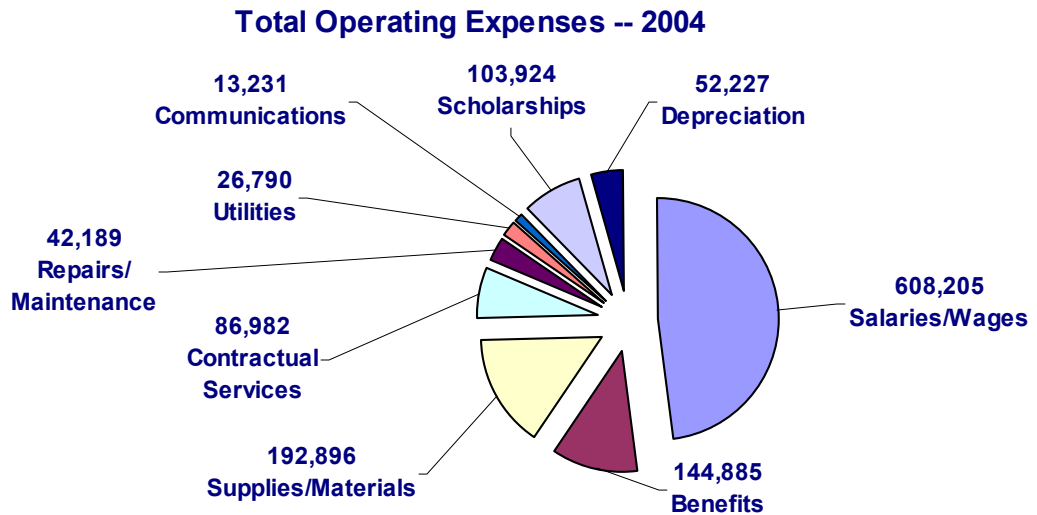
- One of the largest increases in revenue dollars was realized in Federal grants and contracts. The 20% increase is attributable primarily to University of Nebraska-Lincoln's grant awards from several Federal Agencies including the Department of Health and Human Services, National Science Foundation, Department of Agriculture, and the Department of Education. Grants awarded included fast track vaccine production, rice protein studies, sustainable agriculture programs, the center for behavior and reading, and the Ford Direct Student Loan Program. The University of Nebraska Medical Center received National Institute of Health grants for Monroe-Meyer Institute molecular biology research, Eppley Cancer Institute research, and College of Dentistry cellular signaling study.
- Tuition and fees, net of scholarship allowances, increased by \$19 million dollars or 13%. The Board of Regents approved an increase in tuition of 15% in the fall of 2003. This increase contributed to the increase in revenue but was offset by a slight decline in enrollment. Campuses provided additional scholarship allowances of almost \$7 million dollars or 18%, bringing the net increase in tuition from fifteen percent down to thirteen percent.
- Sales and services of health care entities increased by \$16 million. This amount is attributable to the University Medical Associates' increase in patient care revenue from several clinical programs including orthopedics, cardiology, radiology, and general surgery. This increase in activity resulted in a corresponding increase in related expenses.
- Auxiliary operations revenues increased by \$11 million indicating strong support by the University community for student unions and food service. University of Nebraska-Lincoln residence halls experienced a strong demand for housing. Athletic revenues also experienced growth.
- Sales and services of educational departments increased by 16% due to increased efforts toward self supporting activities and a general increase in classroom and teaching laboratory fees.

Total Operating Revenues -- 2004



Expenses. Operating expenses were \$1,271 million for the 2004 fiscal year, an increase of 4% compared to 2003. Changes in the major expense classifications follow.

- Salaries, wages and benefits decreased by \$4 million in 2004 compared to 2003. The decrease is attributed to budget reductions by University management. Budgeted FTE positions were reduced by 246 to 12,815 during the year. A restructuring of programs eliminated permanent employee positions in selected colleges and divisions, corresponding to a reduction in state non-capital appropriations for 2004. Additionally, budget savings realized by not filling vacant positions and delaying annual increases at UNL until January 1, 2004 made it possible to give an average increase in salaries and benefits of 1.75% with additional amounts for excellence and instructional work load salaries.
- Supplies and materials increased by 9% or \$16 million most of which can be attributed to costs associated with a \$14 million growth in clinics and blended health care revenues of the University of Nebraska Medical Associates.
- Contractual Services increased approximately 50% corresponding to increased activity in Federal research grants and sub-awards for polar and other research studies.
- Utilities expenses increased by 14% due to sharp increases in energy costs and the purchase of natural gas and heating oil.
- Scholarships and fellowships grew by \$15 million during 2004. As mentioned earlier, the campuses increased scholarship allowances by \$7 million, which, along with additional Federal student aid and direct student loan program funds, resulted in the increase.



Non-Operating Revenues (Expenses). Net non-operating revenues increased 2%, or \$11 million during 2004 compared with 2003. This change is the result of an increase in investment revenues of \$28 million offsetting a 5% reduction in state non-capital appropriations of \$22 million.

The University garnered \$47 million in non-capital gifts during the year thanks to continued strong support from the private sector. In addition, capital grants and gifts of \$22 million were received during the current year, the largest portion of which was funding of \$5.5 million for the Durham Research Center.

The University recorded equity in earnings of the Nebraska Medical Center joint venture for 2004 amounting to \$19 million, an increase of \$4 million over the previous year.

Debt Activity

New Indebtedness. The University, through related entities, had four bond issues that were successfully marketed during the year ended June 30, 2004.

The larger of these issues was the University of Nebraska-Lincoln Student Fees and Facilities Bonds, Series 2003B. The bond proceeds of \$69 million are being used to finance the cost of constructing, equipping, and furnishing suite-style residential housing for approximately 520 students at the UNL campus, renovations and improvements to the Selleck residence dining hall, and renovations to the Harper, Schramm, Smith residence hall complex. The new apartment style units will have two or four bedroom suites with single occupancy bedrooms and bathroom facilities within each suite. Common room areas will provide space for socialization and study.

The second issue was the University of Nebraska at Omaha Student Housing Project Bonds, Series 2003. The bond proceeds of \$15 million financed the purchase of Scott Village student residence facilities located on the UNO campus. Scott Village provides much needed on-campus residences for 480 students.

The third new bond issue was the University of Nebraska Medical Center Student Housing Bonds, Series 2003. The proceeds of \$5 million are being used to construct 60 new apartment units in two buildings. The buildings have been designed in cooperation with the local neighborhood association so that the structures reflect the area's historical architecture. The individual living units have been designed to incorporate the latest amenities found in modern student housing.

The last and smallest issue was the University of Nebraska Facilities Corporation (UNFC) Library Storage Project Bonds, Series 2004. The bond proceeds of almost \$4 million are being used to construct a new library storage and retrieval facility on the University of Nebraska-Lincoln campus. It will provide a climate controlled environment for the library's less circulated volumes and documents with strictly controlled temperature, humidity, and air quality to minimize the deterioration of the books and other documents.

Refunding Transactions. On June 3, 2004, the Board of Regents authorized the issuance of \$64.4 million of University of Nebraska-Lincoln Memorial Stadium Project Revenue Bonds, Series 2004, for the construction of new seating and defeasance of the existing 1997 UNFC Memorial Stadium Bonds. On the same date, the Board of Regents paid to UNFC \$13,358 which UNFC deposited into an irrevocable trust to defease the outstanding 1997 UNFC bonds maturing on or after November 1, 2005. In addition, on June 3, 2004, the Board of Regents paid UNFC \$1,918 which was deposited into the same irrevocable trust to defease the outstanding bonds maturing on November 1, 2004. The refunding reduced total debt service payments by approximately \$461 and resulted in an economic gain of \$109.

On July 15, 2003, the University of Nebraska at Kearney issued \$3,705 of Series 2003 Revenue Refunding Bonds. On the same date, \$4,015 was deposited into an irrevocable trust to defease the outstanding UNK Student Fees and Facilities Revenue Refunding Bonds, Series 1993 and 1994. The refunding reduced total debt service payments by approximately \$890 and resulted in an economic gain of approximately \$382.

The University continues to have a positive debt profile, with scheduled debt service for 2005 of \$31 million representing 2.4% of 2004 operating expenses. The University continued to enjoy strong debt ratings in the range of Aa/AA for its revenue bonds. More detailed information about the University's long-term liabilities is available in Footnotes H and I.

Economic Outlook and Subsequent Events That Will Affect the Future

The State of Nebraska, like the majority of other states, continues to face challenges in climbing out of the current economic downturn. Nebraska, as a rule, tends to lag in and out of economic cycles. By the same token, the cycles tend to be less pronounced versus other states. The State's challenges, in turn, impact the University. The University's non-capital state appropriation was reduced for the year ended June 30, 2004 by 5%, after experiencing several budget reductions since the beginning of the biennium. These reductions in appropriations have been managed through a number of measures:

- **Tuition Increases.** Increases of 15% were implemented for 2004 for both residents and nonresidents. Even though these percentages are large at face, they compare to increases in peer institutions that, for the same time frame, ranged up to 25%. Management believes its tuition pricing remains attractive relative to peer institutions of similar quality. True to its roots of being a land grant university, the Board of Regents and management continue to be sensitive to accessibility issues when addressing tuition issues by increasing scholarships and grants-in-aid.
- **Enrollment.** Student enrollment and credit hours declined slightly on an overall basis. Recruitment continues to be a high priority and enrollment growth will help the University to continue to diversify its revenue streams .
- **Research Successes.** The University's strategy includes growth in grants and contracts in focused areas of research that complement the effort to diversify revenue sources. This effort has the added benefit of aiding in attracting and retaining top faculty and students.

- ***Fundraising Successes.*** The University of Nebraska Foundation continues to enjoy fundraising success and provided \$70 million in support to the University to fund scholarships, faculty support, and capital projects.

The State is showing signs of improvement, but growth is expected to be modest. The State must re-examine revenue sources and funding priorities in light of pressures created by rapidly burgeoning costs in areas other than higher education.

Management of the University believes that a strong university and support for higher education are the highest priority in creating long-term growth for the State. Through its role as Nebraska's dominant four-year educational institution, through leadership in research, and through continued outreach and engagement efforts, the University of Nebraska has been, and will continue to be, a strong economic driver and a valuable resource for the State of Nebraska.

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

STATEMENT OF NET ASSETS

JUNE 30, 2004

(Thousands)

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 207,825
Cash and cash equivalents - restricted	321,541
Investments	37,585
Accounts receivable and unbilled charges, net	93,138
Loans to students, net	8,171
Other current assets	<u>14,145</u>
Total current assets	<u>682,405</u>

NON-CURRENT ASSETS:

Cash and cash equivalents - restricted	682
Investments	217,336
Investment in joint venture	147,866
Loans to students, net of current portion	28,148
Capital assets, net of accumulated depreciation	998,446
Other non-current assets	<u>37,843</u>
Total non-current assets	<u>1,430,321</u>
Total assets	<u>2,112,726</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	54,459
Accrued salaries, wages and post-retirement benefits	27,018
Accrued compensated absences	11,440
Bond obligations payable	14,360
Capital lease obligations	3,870
Deferred revenues and credits	57,118
Health and other insurance claims	<u>9,579</u>
Total current liabilities	<u>177,844</u>

NON-CURRENT LIABILITIES:

Accrued salaries, wages and post-retirement benefits, net of current portion	1,472
Accrued compensated absences, net of current portion	29,918
Bond obligations payable, net of current portion	368,595
Capital lease obligations, net of current portion	33,693
Deferred revenues and credits, net of current portion	<u>7,271</u>
Total non-current liabilities	<u>440,949</u>
Total liabilities	<u>618,793</u>

NET ASSETS:

Invested in capital assets, net of related debt	573,740
Restricted for:	
Nonexpendable:	
Permanent endowment	174,577
Investment in joint venture	147,866
Expendable:	
Externally restricted funds	120,274
Loan funds	41,852
Plant construction	141,947
Debt service	76,734
Unrestricted	<u>216,943</u>
Total net assets	<u>\$1,493,933</u>

See notes to financial statements.

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

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004
(Thousands)
(See Independent Auditors' Report on Page 3)

ASSETS

Cash and cash equivalents	\$	615
Temporary cash investments		146,195
Advances and deposits		8
Accounts receivable (net of reserve for bad debts of \$406)		372
Accrued interest receivable		1,753
Student loan receivable		636
Matching funds receivable		1
Prepaid expenses		110
Pledges receivable - restricted		75,107
Investments - restricted		911,345
Property and equipment, net of depreciation		<u>6,364</u>
Total assets		<u>\$ 1,142,506</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Advances and accounts payable	\$	772
University of Nebraska benefits payable		1,685
Scholarships, research, fellowships and professorships payable		3,245
Accrued vacation payable		423
Taxes payable		35
Deferred annuities payable		22,583
Deposits held in custody for others		<u>166,629</u>
Total liabilities		<u>195,372</u>

NET ASSETS:

Unrestricted		9,363
Temporarily restricted		307,749
Permanently restricted		<u>630,022</u>
Total net assets		<u>947,134</u>

Total liabilities and net assets \$ 1,142,506

See notes to financial statements

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

(Thousands)

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

OPERATING REVENUES:

Tuition and fees (net of scholarship allowances of \$46,201)	\$ 168,882
Federal grants and contracts-restricted	250,092
State and local grants and contracts - restricted	25,770
Private grants and contracts - restricted	77,195
Sales and services of educational activities	44,536
Sales and services of health care entities	109,069
Sales and services of auxiliary operations	107,883
Sales and services of auxiliary segments (net of scholarship allowances of \$5,932)	53,011
Other operating revenues	<u>8,747</u>
Total operating revenues	<u>845,185</u>

OPERATING EXPENSES:

Salaries and wages	608,205
Benefits	<u>144,885</u>
Total compensation and benefits	753,090
Supplies and materials	192,896
Contractual services	86,982
Repairs and maintenance	42,189
Utilities	26,790
Communications	13,231
Depreciation	52,227
Scholarships and fellowships	<u>103,924</u>
Total operating expenses	<u>1,271,329</u>

OPERATING LOSS (426,144)

NON-OPERATING REVENUES (EXPENSES):

State of Nebraska noncapital appropriations	390,188
Gifts	46,625
Investment income	31,518
Increase in fair value of investments	18,577
Interest income on loans receivable	572
Interest expense on bond obligations	(15,730)
Equity in earnings of joint venture	<u>19,349</u>
Net non-operating revenues	<u>491,099</u>

INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES 64,955

OTHER REVENUES, EXPENSES, GAINS OR LOSSES:

State of Nebraska capital appropriations	9,309
Capital grants and gifts	21,575
US Government advances	546
Private gifts and bequests for permanent endowments	2,110
Loss on disposal of capital assets	<u>(6,030)</u>
Net other revenues, expenses, gains or losses	<u>27,510</u>

INCREASE IN NET ASSETS 92,465

NET ASSETS:

Net assets, beginning of year	<u>1,401,468</u>
Net assets, end of year	<u>\$1,493,933</u>

See notes to financial statements.

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

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004
(Thousands)
(See Independent Auditors' Report on Page 3)

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

See notes to financial statements.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Grants and contracts	\$ 339,978
Tuition and fees	169,486
Sales and services of health care entities	108,967
Sales and services of auxiliary operations	108,046
Sales and services of educational activities	62,205
Sales and services of auxiliary segments	50,468
Student loans collected	8,739
Other receipts	6,870
Payments to employees	(749,258)
Payments to vendors	(379,272)
Scholarships paid to students	(103,924)
Student loans issued	(10,293)
Other payments	(139)
Net cash flows from operating activities	<u>(388,127)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State of Nebraska noncapital appropriations	390,083
Private gifts and grants for operating use	46,188
Private gifts and bequests for endowment use	2,111
Net cash flows from noncapital financing activities	<u>438,382</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from the issuance of bonds	161,210
Grants and contracts	28,920
State of Nebraska capital appropriations	9,367
U.S. Government advances	547
Purchases of capital assets	(116,686)
Defeasance of bond obligations	(19,291)
Interest paid on bond obligations	(13,054)
Principal paid on bond obligations	(12,568)
Payments made on lease obligations	(4,500)
Net cash flows from capital and related financing activities	<u>33,945</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	154,966
Purchases of investments	(159,469)
Interest on investments	31,693
Distributions received from joint venture	3,000
Interest on loans receivable	571
Net cash flows from investing activities	<u>30,761</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	114,961
CASH AND CASH EQUIVALENTS, Beginning of year	<u>415,087</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 530,048</u>

See notes to financial statements.

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

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

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

CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN
STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 207,825
Cash and cash equivalents - restricted (Current)	321,541
Cash and cash equivalents - restricted (Non-current)	<u>682</u>
Cash and cash equivalents - end of year	<u>\$ 530,048</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (426,144)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	52,227
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	(13,207)
Loans to students	(1,401)
Other current assets	(1,196)
Accounts payable	2,453
Accrued salaries, wages and post-retirement benefits	3,782
Deferred revenues and credits	(3,883)
Health and other insurance claims	<u>(758)</u>
Net cash flows from operating activities	<u>\$ (388,127)</u>

NONCASH TRANSACTIONS:

Capital gifts and grants	\$ 697
Increase in fair value of investments	18,577

See notes to financial statements.

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

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004
(Thousands)
(See Independent Auditors' Report on Page 3)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 99,659
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	669
Gain on sale of assets	(34,382)
Appreciation of assets	(70,933)
Decrease in pledges receivable	13,494
Increase in deferred annuities payable	1,012
Contribution to permanently restricted endowment funds	(21,732)
Real and personal property contributions received for the University	(295)
Increase in:	
Accounts receivable	(101)
Interest receivable	(173)
Prepaid expense	(61)
Increase (decrease) in:	
Advances and accounts payable	(30)
University of Nebraska benefits payable	688
Scholarships, research, fellowships, and professorships payable	1,672
Accrued vacation payable	18
Taxes payable	20
Deposits held in custody for others	23,892
Total adjustments	<u>(86,242)</u>
Net cash provided by operating activities	<u>13,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net increase in temporary cash investments	(12,962)
Net decrease in student loans	83
Net purchases in investments	(21,611)
Purchase of property and equipment	(183)
Sales of property and equipment	9
Net cash used in investing activities	<u>(34,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contribution to permanently restricted endowment funds	<u>21,732</u>
Net cash provided by financing activities	<u>21,732</u>
NET INCREASE IN CASH	485
CASH AND CASH EQUIVALENTS, Beginning of year	<u>130</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 615</u>

REQUIRED DISCLOSURE:

The Foundation expended no cash for interest or income taxes.

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004
(Thousands)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

- The University of Nebraska Facilities Corporation (UNFC) was organized to finance the construction, repair, and renovation of buildings and the acquisition of land and equipment and to

hold them in trust for the University. UNFC is governed by a Board of Directors comprised of the Board of Regents.

- The University Medical Associates (UMA) was organized for the purpose of billing, collecting and distributing medical service fees generated by clinicians employed by the University of Nebraska Medical Center (UNMC). UMA is governed by the Board of Regents. The distribution of fees is governed by the terms of the University of Nebraska Medical Services Plan applicable to the member clinicians.
- UNeMed was organized to develop and market biomedical technologies for the University and pay all related patent costs, and acts under the authority of the Board of Regents.
- The University Dental Associates (UDA) was organized for the purpose of billing, collecting and distributing dental service fees generated by dentists employed by the UNMC. UDA is governed by the Board of Regents. The distribution of fees is governed by the terms of the University of Nebraska Dental Service Plan applicable to the member dentists.
- Nebraska Utility Corporation (NUCorp) is a not-for-profit corporation formed under the Nebraska Interlocal Cooperation Act between the Board of Regents and Lincoln Electric System. The purpose of NUCorp is to purchase, lease, construct and finance activities relating to furnishing energy requirements and utility and infrastructure facilities for the University of Nebraska-Lincoln. NUCorp is governed by a five member Board, three of which are University of Nebraska officials.

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

The University adopted the guidance of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, An Amendment of GASB 14*, as of July 1, 2003. This Statement provides guidance to determine whether certain organizations for which the University is not financially accountable should be reported as a component unit based on the nature and significance of the relationship. As a result of this guidance, the University of Nebraska Foundation's (the Foundation) financial statements are discreetly presented here with the University's financial statements for the year ended June 30, 2004. The Foundation is a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code whose purpose is to provide financial support for the University of Nebraska system. The Foundation reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented, see Notes P and Q.

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

Cash and Cash Equivalents – Cash and cash equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the University based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which make use of amounts on deposit from the University. Securities lending transactions cannot be specifically identified to amounts on deposit from the University and as such are not included in the financial statements for the year ended June 30, 2004.

For purposes of the statement of cash flows, cash includes cash and cash equivalents, both unrestricted and restricted, 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 gains and losses.

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

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

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.

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

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

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

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

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

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

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

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

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

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

Recent Statements Issued by the Government Accounting Standards Board – The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The University has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in the University's financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in

impairment of capital assets. The University has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

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

B. CASH AND CASH EQUIVALENTS

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

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 Investment Council’s investment pool is equal to its pool units. University trust funds are invested by the University in accordance with the prudent person rule as established by the University. The prudent person rule places no restrictions on the investment of these funds.

For reporting purposes, the carrying amount of investments is classified into three categories of credit risk. Category 1 includes investments that are insured or registered with securities held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments with securities held by the counterparty’s trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the University’s name.

Investments are stated at fair value and are uninsured, unregistered and are held by the trustee or an agent but not in the name of the University as follows:

	June 30, 2004
U.S. government securities	\$ 12,173
Government agencies	28,919
Corporate bonds	90,107
Common stock	<u>19,218</u>
	150,417
Investments not subject to categorization:	
Mutual funds	<u>104,504</u>
Total current and non-current investments	<u><u>\$ 254,921</u></u>

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 \$7,167. In addition, the University maintains an allowance for doubtful collections of student loans of approximately \$1,385 at June 30, 2004.

E. INVESTMENT IN JOINT VENTURE

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

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

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

Fiscal Year Ending June 30:

2005	\$ 4,002
2006	4,009
2007	4,000
2008	4,009
2009	3,996
2010-2014	<u>9,840</u>
	<u>\$ 29,856</u>

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

F. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 45,071	\$ 2,726	\$ -	\$ 47,797
Land improvements	73,972	11,596	(3,861)	81,707
Leasehold improvements	-	12,534	-	12,534
Building	955,501	91,267	(39,976)	1,006,792
Equipment	219,544	25,630	(16,371)	228,803
Construction work in progress	101,346	101,160	(109,592)	92,914
Total capital assets	<u>1,395,434</u>	<u>244,913</u>	<u>(169,800)</u>	<u>1,470,547</u>
Less accumulated depreciation for:				
Land improvements	30,593	2,932	(3,482)	30,043
Leasehold improvements	-	305	-	305
Building	307,402	30,476	(38,049)	299,829
Equipment	<u>134,822</u>	<u>18,514</u>	<u>(11,412)</u>	<u>141,924</u>
Total accumulated depreciation	<u>472,817</u>	<u>52,227</u>	<u>(52,943)</u>	<u>472,101</u>
Capital assets, net	<u>\$ 922,617</u>	<u>\$192,686</u>	<u>\$ (116,857)</u>	<u>\$ 998,446</u>

G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows for the year ended June 30, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	<u>\$ 39,559</u>	<u>\$ 30,646</u>	<u>\$ (28,847)</u>	<u>\$ 41,358</u>	<u>\$ 11,440</u>

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable is as follows for the year ended June 30, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond obligations payable	<u>\$ 253,135</u>	<u>\$ 161,210</u>	<u>\$ (31,390)</u>	<u>\$ 382,955</u>	<u>\$ 14,360</u>

Bond obligations payable at June 30, 2004, consist of the following:

	Interest Rate	Annual Install- ment	Principal Amount Outstanding
Obligations under the Master Trust Indenture:			
University of Nebraska-Lincoln:			
Student Fees and Facilities:			
Series 2002, revenue refunding, due through July 2016	2.00 - 5.00%	\$870 - \$2,760	\$ 15,325
Series 2003A, revenue bonds, due through July 2037	2.95 - 5.25%	405 - 1,595	25,930
Series 2003B, revenue bonds, due through July 2038	2.50 - 5.00%	1,085 - 3,890	68,885
Lincoln Parking Project:			
Series 2000, parking revenue bonds, due through June 2020	4.90 - 5.80%	730 - 3,685	19,615
Series 2003, revenue refunding, due through June 2016	1.55 - 4.50%	655 - 1,615	8,180
University of Nebraska at Omaha:			
Student Center Series 2003:			
Revenue refunding bonds, due through May 2013	1.65 - 3.90%	480 - 1,180	5,335
Student Housing Series 2003:			
Revenue bonds, due through May 2033	1.40 - 5.00%	305 - 945	15,400
University of Nebraska Medical Center:			
Student Housing Revenue Bonds			
Series 2003, due through June 2033	1.50 - 5.00%	110 - 330	5,430
Other University Obligations:			
University of Nebraska at Kearney:			
Student Fees and Facilities:			
Series 1966, due through July 2006	4.3%	485 - 505	990
Series 2000, due through July 2020	4.85 - 5.50%	230 - 1,150	6,125
Series 2003, due through July 2011	1.20 - 2.90%	300 - 605	3,100
University of Nebraska-Lincoln:			
Athletics:			
2004A, revenue refunding, due November 2024	4.00 - 5.25%	1,695 - 5,195	53,330
2004B, revenue refunding, due November 2024	2.50 - 5.25%	1,825 - 3,270	11,050
Total University Obligations			<u>238,695</u>
Obligations of Blended Entities:			
University of Nebraska Facilities Corporation:			
Series 1998 Bonds (Deferred Maintenance Project), due through July 2011	4.30 - 5.25%	225 - 8,570	58,200
Series 1998-2 Bonds (UNMC Electrical System Project) due through October 2008	4.10 - 4.30%	235 - 275	1,270
Series 2002 Bonds (Research Center of Excellence Project), due through February 2015	3.50 - 5.00%	2,790 - 21,215	56,695
Series 2003 (Alexander Building Project), due through December 2023	1.35 - 5.00%	100 - 205	2,805
Series 2004 (Library Storage Project), due through July 15, 2024	1.55 - 5.00%	80 - 585	3,410
Nebraska Utility Corporation (NUCorp):			
Series 2001 Revenue Bonds, due through January 2023	4.50 - 5.25%	720 - 1,620	21,880
Total Obligation of Blended Entities			<u>144,260</u>
Total Bond Obligations Payable			<u>\$ 382,955</u>

Annual maturities subject to mandatory redemption at June 30, 2004 are as follows:

	Total University		UNFC		Nebraska Utilities Corporation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 4,470	\$ 11,076	\$ 9,890	\$ 5,665	\$ -	\$ 1,100	\$ 14,360	\$ 17,841
2006	8,115	10,817	16,755	5,276	720	1,084	25,590	17,177
2007	9,080	10,479	12,190	4,528	750	1,051	22,020	16,058
2008	9,865	10,098	11,585	3,938	785	1,017	22,235	15,053
2009	12,365	9,649	11,700	3,368	815	983	24,880	14,000
2010-2014	51,115	41,174	35,035	9,640	5,465	4,240	91,615	55,054
2014-2019	41,635	30,941	22,740	1,853	7,340	2,559	71,715	35,353
2020-2024	49,450	19,062	1,900	391	6,005	651	57,355	20,104
Thereafter	52,600	19,327	585	13	-	-	53,185	19,340
Total	<u>\$238,695</u>	<u>\$162,623</u>	<u>\$122,380</u>	<u>\$34,672</u>	<u>\$21,880</u>	<u>\$12,685</u>	<u>\$382,955</u>	<u>\$209,980</u>

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

Master Trust Indenture - The Board of Regents has entered into a Master Indenture dated as of June 1, 1995 (as amended and supplemented from time to time, the Indenture) with a fiduciary with respect to the facilities (including student housing, student unions, student health facilities and parking facilities) from which the Board of Regents derives revenues, fees and earnings. The Indenture provides for the formation of an Obligated Group for the purpose of achieving lower borrowing costs through sharing accumulated excess revenues and earnings derived from such facilities. As of June 30, 2004, the members of the Obligated Group are (a) the student housing, student unions and student health facilities on the University of Nebraska - Lincoln campuses (UNL Student Fees and Facilities), (b) the parking facilities on the University of Nebraska - Lincoln campuses (UNL Parking), (c) the Student Center at the University of Nebraska at Omaha (UNO Student Center) (d) certain Student housing facilities at the University of Nebraska at Omaha (UNO Student Housing), and (e) certain student housing facilities at the University of Nebraska Medical Center (UNMC Student Housing) (collectively, the Obligated Group). The accumulated surplus revenues, fees and other payments of such Obligated Group have been jointly pledged to the payment of revenue bonds issued with respect to such facilities. Other facilities will be added to the Obligated Group and the revenues, fees and other payments derived from such facilities will be pledged under the Indenture in the future as circumstances permit.

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

For the UNK Student Fees and Facilities and UNL Athletics Bonds, net revenues from student housing and dining facilities, special student fees, certain athletic ticket revenue and designated donations are pledged to secure the respective bond issues as defined in those bond resolutions. These bond issues and 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. The UNFC bonds do not constitute debt of the Board of Regents of the University of Nebraska but shall be payable solely out of monies derived from designated tuition revenues, legislative appropriations, and UNMC lease payments.

The bond resolutions specify the funds which 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, 2004 the University and UNFC are in compliance with these requirements.

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

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

University of Nebraska Facilities Corporation

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

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

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

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

Principal and interest payments will come from University cash funds.

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

Series 1998 Bonds – Deferred Maintenance Project – In 1998, the UNFC authorized the issuance of \$80,190 of Series 1998 Bonds (Deferred Maintenance Project), dated July 15, 1998. The Deferred Maintenance Project was created for the purpose of paying the cost of certain deferred maintenance projects on each of the four campuses of the University of Nebraska authorized by Nebraska Legislative Bill 1100 (LB1100). Principal and interest payments on the bonds are secured by existing balances in the University Cash Fund, the University of Nebraska at Omaha Cash Fund, and the University of Nebraska at Kearney Cash Fund. Under LB1100, the Nebraska Legislature has appropriated for repayment \$5,500 each fiscal year beginning July 1, 1999 through June 30, 2009 which can be modified by the Legislature as specified in LB1100. In addition, the Board of Regents has committed \$5,200 of tuition revenues for repayment for each fiscal year through June 30, 2011.

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

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

Nebraska Utilities Corporation

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

Current Year Refundings – On July 15, 2003, UNK issued \$3,705 of Series 2003 Revenue Refunding Bonds with an average rate of 2.2% to refund \$520 of outstanding Series 1993 Revenue Refunding Bonds with an average rate of 5.5% and \$3,495 of outstanding Series 1994 Revenue Refunding Bonds with an average rate of 5.1%. As a result, the Series 1993 and Series 1994 bonds have been removed from the 2004 Statement of Net Assets. The refunding reduced total debt service payments by approximately \$890 and resulted in an economic gain of approximately \$382.

In 2004, the Board of Regents authorized its own Series 2004A Revenue and Refunding Bonds (University of Nebraska-Lincoln Memorial Stadium Project), dated June 3, 2004. On June 3, 2004, the Board of Regents paid to UNFC \$13,358, which UNFC deposited into an irrevocable trust with an escrow agent, to defease the outstanding 1997 UNFC bonds maturing on or after November 1, 2005. On the same date the Board of Regents paid UNFC \$1,918 which was deposited into the same irrevocable trust to defease the outstanding 1997 UNFC bonds maturing on November 1, 2004. As a result, the entirety of the 1997 bonds are considered to be defeased. This transaction reduced total debt service payments by approximately \$461 and resulted in an economic gain of approximately \$109. At June 30, 2004, \$14,845 of the 1997 bonds are outstanding.

Prior Year Defeasances – In 1993, the UNFC authorized the issuance of \$45,570 of Series 1993 Refunding Bonds (the UNMC Project), dated July 15, 1993. On September 30, 1997, the Board of Regents deposited \$34,764 into an irrevocable trust with an escrow agent to defease outstanding Series 1993 Bonds. Outstanding bonds on July 1, 2005 will be redeemed at a price equal to the principal

amount plus accrued interest. As a result, the Series 1993 Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. At June 30, 2004, \$28,820 of the Series 1993 Refunding Bonds are outstanding.

I. CAPITAL LEASE OBLIGATIONS

The University is presently leasing buildings with either the option to purchase or transfer of title at the expiration of the lease term, and has also entered into several contracts with the University of Nebraska Foundation (Foundation) which allow the University to lease certain real property and purchase title to the entire leasehold at the expiration of the lease term. The University also leases certain items of equipment which are classified as capital leases.

Capital lease obligation activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital lease obligations	<u>\$ 35,083</u>	<u>\$ 6,980</u>	<u>\$ (4,500)</u>	<u>\$ 37,563</u>	<u>\$ 3,870</u>

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

	Buildings and Properties	Equipment	Total
2005	\$ 4,592	\$ 1,563	\$ 6,155
2006	4,593	439	5,032
2007	4,572	50	4,622
2008	4,575	-	4,575
2009	3,351	-	3,351
Thereafter	<u>38,332</u>	<u>-</u>	<u>38,332</u>
	60,015	2,052	62,067
Less: Interest and executory costs	<u>24,430</u>	<u>74</u>	<u>24,504</u>
	<u>\$ 35,585</u>	<u>\$ 1,978</u>	<u>\$ 37,563</u>
Capital assets held under capital lease obligations at June 30, 2004 are as follows:			
Buildings	\$46,673		
Equipment	<u>6,596</u>		
	<u>\$ 53,269</u>		

J. HEALTH AND OTHER INSURANCE CLAIMS

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

	Clinicians Self- Insurance	General Liability	Group Health and Dental	Total
Claim reserve, July 1, 2002	\$ 662	\$ 3,311	\$ 7,714	\$ 11,687
Incurred claims	(14)	1,599	64,745	66,330
Payments on claims	<u>35</u>	<u>(1,323)</u>	<u>(66,458)</u>	<u>(67,746)</u>
Claim reserve, June 30, 2003	683	3,587	6,001	10,271
Established claim reserve	1	-	-	1
Incurred claims	(292)	824	75,860	76,392
Payments on claims	<u>358</u>	<u>(982)</u>	<u>(76,461)</u>	<u>(77,085)</u>
Claim reserve, June 30, 2004	<u>\$ 750</u>	<u>\$ 3,429</u>	<u>\$ 5,400</u>	<u>\$ 9,579</u>

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

The University participates in the State Excess Liability Fund which provides coverage from \$200 up to \$1,250 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 and incurred but not reported claims based on claim history adjusted for current trends. A trust agreement with a bank provides for the collection, investment and administration of premiums and for payment to the third party administrators for claims paid.

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

K. RETIREMENT PLANS

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

The University's total payroll for fiscal year 2004 was approximately \$608,790 of which approximately \$464,875 was covered by the plan. The University's contribution during the year was approximately \$33,609 or 7.23% of covered payroll and the faculty and staff's contribution was approximately \$23,964 or 5.15% of covered payroll.

Faculty and staff (at least .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 .5 FTE) attaining age 30 following 24 months of continuous service are required to participate. The plan benefits are fully vested at the date of contribution.

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

L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of several facilities which are estimated to cost approximately \$238,851. As of June 30, 2004, the approximate remaining costs to complete these facilities were \$101,570, which will be financed as follows:

Bond funds	\$ 55,519
Federal funds	10,065
University funds	4,653
State capital appropriations	701
Private gifts, grants and contracts	<u>30,632</u>
	<u>\$ 101,570</u>

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

The University established its Agricultural Research and Development Center on approximately 9,000 acres acquired from the Nebraska Ordnance Plant (NOP) from 1962 to 1971. The Federal government produced munitions at NOP during World War II and the Korean Conflict, exposing the area to contaminants. The University legally disposed of certain materials in the 1970's. In 1990, the NOP became a Federal Superfund site. An administrative order is anticipated between the Board of Regents and the Environmental Protection Agency requiring a remedial investigation/feasibility study to determine the extent of contamination and removal actions necessary. A contractual arrangement is

expected with an engineering and consulting firm to implement the remedial investigation/feasibility study. The cost of remediation and restoration of the area and the liability affected parties has, if any, can not be determined.

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

M. RELATED PARTY TRANSACTIONS

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

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

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

N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2004:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$289,287	\$ 27,834	\$ 4,415	\$ -	\$ 13	\$ 2,640	\$ 2,175	\$ -	\$ 326,364
Research	122,363	35,799	28,393	7,861	51	1,340	1,447	-	197,254
Public service	66,399	11,228	9,486	919	416	834	212	-	89,494
Academic support	57,531	13,696	-	10,158	5	1,406	96	-	82,892
Student services	13,626	2,935	319	-	1	285	114	-	17,280
Instructional support	50,343	14,527	2,998	2,092	105	1,235	945	-	72,245
Operation and maintenance of plant	20,866	6,546	2,997	14,831	22,341	275	-	-	67,856
Healthcare entities	67,946	15,939	23,659	618	94	406	-	-	108,662
Scholarships and fellowships	2,920	268	1,452	57	-	-	97,153	-	101,850
Auxiliary operations	61,809	64,124	13,263	5,653	3,764	4,810	1,782	-	155,205
Depreciation	-	-	-	-	-	-	-	52,227	52,227
Total Expenses	<u>\$753,090</u>	<u>\$192,896</u>	<u>\$86,982</u>	<u>\$42,189</u>	<u>\$26,790</u>	<u>\$13,231</u>	<u>\$103,924</u>	<u>\$52,227</u>	<u>\$1,271,329</u>

O. AUXILIARY SEGMENTS

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

Master Trust Indenture Obligated Group – Includes the following:

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

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

UNO Student Center Project - Series 2003 – The Student Center provides a variety of services for the benefit of the University and its students. Student fees and other revenues, comprised primarily of bookstore and food service revenues, are pledged to the Series 2003 bonds.

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

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

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

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

	June 30, 2004	
	UNK Student Fees and Facilities	Master Trust Indenture Obligated Group
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 7,280	\$ 108,939
Non-current assets:		
Capital assets	16,852	126,273
Other non-current assets	333	7,279
Total assets	<u>24,465</u>	<u>242,491</u>
Liabilities:		
Current liabilities	1,677	24,309
Non-current liabilities	9,049	163,236
Total liabilities	<u>10,726</u>	<u>187,545</u>
Net Assets:		
Invested in capital assets, net of related debt:		
Restricted:	6,801	(38,307)
Expendable:		
Plant construction	123	53,816
Debt service	6,815	32,687
Unrestricted	<u>-</u>	<u>6,750</u>
Total net assets	<u>\$ 13,739</u>	<u>\$ 54,946</u>
Year Ended June 30, 2004		
	UNK Student Fees and Facilities	Master Trust Indenture Obligated Group
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	\$ 10,673	\$ 50,067
Operating expenses:		
Depreciation	818	3,608
Other operating expenses	8,091	43,132
Operating income	<u>1,764</u>	<u>3,327</u>
Non-operating expense	<u>(11)</u>	<u>(592)</u>
Change in net assets	1,753	2,735
Net assets, beginning of year	<u>11,986</u>	<u>52,211</u>
Net assets, end of year	<u>\$ 13,739</u>	<u>\$ 54,946</u>

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

P. UNIVERSITY OF NEBRASKA FOUNDATION

The 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 of Nebraska 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 can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2004, the Foundation's net assets (including unrealized gains) totaled \$947,134 at June 30, 2004.

During the year ended June 30, 2004, the Foundation contributed \$52 million to the University for academic support, student assistance, faculty assistance, research and museums and libraries. In addition, the Foundation sent capital gifts of \$18 million during 2004 to the University. These contributions provided support for several projects including the construction of Durham Research Center and the Memorial Stadium Skybox project.

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

Q. COMPONENT UNIT DISCLOSURES

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting – The financial statements of the Foundation have been prepared on the accrual basis and include all funds controlled by and in the custody of the Foundation. Funds in control of the Foundation include the wholly owned Limited Liability Company, University of Nebraska Technology Park LLC and affiliated organization, UNF Charitable Gift Fund, which had no transactions in the year ended June 30, 2004.

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

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

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

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

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

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

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

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

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

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

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

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

2. INVESTMENTS

The investments in equity securities with a readily determinable fair market quotations and debt securities are stated at fair value. All other investments purchased by the Foundation are stated at cost or fair value or appraised value at date of receipt for those investments received as donations.

	2004		
	Book Value	Unrealized Gain (Loss)	Fair Value
INVESTMENTS STATED AT FAIR VALUE:			
United States and municipal Government securities	\$ 33,801	\$ 2,439	\$ 36,240
Other bonds	10,629	81	10,710
Common stock	283,137	84,889	368,026
Mutual funds	379,787	41,774	421,561
Preferred stocks	<u>820</u>	<u>249</u>	<u>1,069</u>
	<u>\$ 708,174</u>	<u>\$ 129,432</u>	<u>\$ 837,606</u>
Book Value 2004			
INVESTMENTS STATED AT OTHER THAN FAIR VALUE:			
Certificates of deposit, savings and money funds			\$ 27,473
Limited partnerships			(548)
Real estate			15,821
Real estate mortgage and contracts			24,623
Mineral rights and royalties			22
Miscellaneous			2,824
Cash value of life insurance			3,157
Annuity contracts			<u>367</u>
			<u>73,739</u>
TOTAL INVESTMENTS:			
Stated at fair value			837,606
Stated at other than fair value			<u>73,739</u>
			<u>\$ 911,345</u>

3. LEASE COMMITMENTS

The Foundation has entered into a contract for the rental of office space in Lincoln beginning January 1, 2003 for a period of 10 years and continuing on a month-to-month basis. The annual rental is \$400 for the first five years and \$467 for the second five years. The Foundation had entered into a contract for rental of office space in Omaha through December 31, 2005, with annual increases. The current lease is \$11 per month. The Foundation also renewed an agreement to lease office space in Kearney through October 31, 2005 at \$3 per month. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2004, are as follows:

June 30, 2005	\$ 571
June 30, 2006	481
June 30, 2007	401
June 30, 2008	434
June 30, 2009	467

4. RETIREMENT PLAN

The Foundation sponsors a retirement plan that covers employees of the University of Nebraska Foundation and the University of Nebraska Technology Park LLC with one year of service who work in excess of 1,000 hours annually and have attained the age of 21 years or previous participation in the TIAA-CREF annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Code Section 403b(1) of the Internal Revenue Code using annuities under TIAA-CREF. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of their salary to the plan and the Foundation matches the amount with either 7.5% or 6% of salary, respectively. The University of Nebraska Technology Park LLC sponsored a 401(k) plan which was terminated as of June 30, 2003. The Foundation and LLC contribution to the plan for the year ending June 30, 2004 was \$419.

5. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances and certificates of deposit at financial institutions located in Nebraska. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100. At various times during the fiscal year, the Foundation's cash in bank balances exceeded the federally insured limits. The Foundation has maintained its cash balances and certificates of deposit at financial institutions in accordance with all Foundation policies and procedures.

6. CONTINGENCIES AND COMMITMENTS

Pledges and donations received by the Foundation restricted for the renovation and construction of the press box and indoor seating will be used to pay in part a \$21,575 bond issue of the University of Nebraska Facilities Corporation, Revenue Bonds, Series 1997, dated July 15, 1997. The bonds are due November 1, 2000 through November 1, 2009. Donations for this purpose will be paid to the University of Nebraska Facilities Corporation as received and requested by the Corporation. Bond maturities are as follows:

Year ended 6/30/2005	\$ 1,875
Year ended 6/30/2006	1,965
Year ended 6/30/2007	2,060
Year ended 6/30/2008	2,155
Year ended 6/30/2009 and 2010	6,790

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

7. RESTRICTED NET ASSETS

Net assets are restricted by donors for various purposes in support of activities at the University of Nebraska, including the campuses at Lincoln, Kearney, Omaha and the Medical Center in Omaha. The purposes include scholarships, fellowships, research, academic support and campus building and improvements. Only income from the permanently restricted net assets are available for these purposes.

The amount of the net assets are as follows:

Temporarily restricted - charitable trusts and annuities	\$ 27,004
Temporarily restricted - available for specific purposes	232,926
Temporarily restricted - use at discretion of Foundation Board	47,819
Permanently restricted - available for specific purposes	49,030
Permanently restricted - endowment	571,226
Permanently restricted - student loans	<u>9,766</u>
	<u>\$ 937,771</u>

8. PLEDGES RECEIVABLE

Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected as follows:

Gross amount due in:	
One year or less	\$ 29,073
One to five years	36,071
More than five years	<u>24,369</u>
	89,513
Less discount to present value	<u>12,083</u>
	77,430
Less allowance for doubtful accounts - 3%	<u>2,323</u>
	<u>\$ 75,107</u>

The discount will be recognized as contribution income in years 2005 through 2021.

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

9. PROPERTY AND EQUIPMENT

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

Property	\$ 489
Leasehold improvements	1,516
Aircraft	4,177
Automobiles	99
Furniture, equipment and software	<u>4,991</u>
	11,272
Less accumulated depreciation	<u>4,908</u>
Net property and equipment	<u>\$ 6,364</u>

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

R. SUBSEQUENT EVENTS

On September 10, 2004, the Board of Regents approved the construction of the North Addition to the 14th and Avery parking structure and related financing. The total estimated cost of the project is expected to be \$8,400. The project will be financed with the issuance of revenue bonds for approximately \$8,700 with net proceeds of \$6,900 being combined with existing parking surplus funds of \$1,500 to pay construction costs. The bonds will have a targeted maturity of 20 years. The project, which is the second phase to the 14th and Avery parking structure completed in August 2004, will be approximately 250,000 square feet and will provide approximately 843 additional parking spaces.

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

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 117,037
Cash and cash equivalents - restricted	184,846
Investments	4,794
Accounts receivable and unbilled charges, net	39,095
Loans to students, net	3,408
Due from other campuses	3,290
Other current assets	<u>10,435</u>
Total current assets	<u>362,905</u>

NON-CURRENT ASSETS:

Cash and cash equivalents - restricted	682
Investments	140,744
Loans to students, net of current portion	10,663
Capital assets, net of accumulated depreciation	483,930
Other non-current assets	<u>26,963</u>
Total non-current assets	<u>662,982</u>
Total assets	<u>1,025,887</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	31,603
Accrued salaries, wages and post-retirement benefits	15,630
Accrued compensated absences	3,851
Bond obligations payable	2,255
Capital lease obligations	2,861
Due to other campuses	38
Capital lease obligations due to other campuses	960
Deferred revenues and credits	<u>42,730</u>
Total current liabilities	<u>99,928</u>

NON-CURRENT LIABILITIES:

Accrued salaries, wages and post retirement benefits, net of current portion	1,111
Accrued compensated absences, net of current portion	14,466
Bond obligations payable, net of current portion	221,940
Capital lease obligations, net of current portion	31,006
Capital lease obligations - UNFC, net of current portion	1,544
Deferred revenues and credits, net of current portion	<u>2,465</u>
Total non-current liabilities	<u>272,532</u>
Total liabilities	<u>372,460</u>

NET ASSETS:

Invested in capital assets, net of related debt	219,370
Restricted for:	
Nonexpendable:	
Permanent endowment	149,694
Expendable:	
Externally restricted funds	21,132
Loan funds	16,678
Plant construction	125,118
Debt service	39,309
Unrestricted	<u>82,126</u>
Total net assets	<u>\$ 653,427</u>

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

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

OPERATING REVENUES:	
Tuition and fees (net of scholarship allowances of \$26,506)	\$ 89,748
Federal grants and contracts-restricted	179,516
State and local grants and contracts - restricted	6,492
Private grants and contracts - restricted	2,117
Sales and services of educational activities	33,338
Sales and services of auxiliary operations	87,425
Sales and services of auxiliary segments (net of scholarship allowances of \$3,976)	33,726
Other operating revenues	5,796
Total operating revenues	<u>438,158</u>
OPERATING EXPENSES:	
Salaries and wages	289,052
Benefits	73,264
Total compensation and benefits	<u>362,316</u>
Supplies and materials	112,716
Contractual services	28,492
Repairs and maintenance	18,167
Utilities	17,608
Communications	7,708
Depreciation	29,305
Scholarships and fellowships	82,957
Total operating expenses	<u>659,269</u>
TRANSFERS:	
Intercampus reallocation	(14,677)
Other	8,782
Total transfers	<u>(5,895)</u>
OPERATING LOSS	<u>(227,006)</u>
NON-OPERATING REVENUES (EXPENSES):	
State of Nebraska noncapital appropriations	200,621
Gifts	28,700
Investment income (net of investment management fees of \$105)	22,719
Increase in capital lease obligation - UNFC	(1,153)
Increase in fair value of investments	13,205
Interest income on loans receivable	190
Interest expense on bond obligations	(7,655)
Net non-operating revenues	<u>256,627</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>29,621</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
State of Nebraska capital appropriations	2,045
Capital grants and gifts	3,394
US Government advances	111
Private gifts and bequests for permanent endowments	827
Loss on disposal of capital assets	(2,365)
Net other revenues, expenses, gains or losses	<u>4,012</u>
INCREASE IN NET ASSETS	33,633
NET ASSETS:	
Net assets, beginning of year	<u>619,794</u>
Net assets, end of year	<u>\$ 653,427</u>

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

THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Grants and contracts	\$ 179,030
Tuition and fees	90,001
Sales and services of auxiliary operations	87,644
Sales and services of auxiliary segments	31,147
Sales and services of educational activities	51,154
Other receipts	5,010
Student loans collected	3,636
Payments to employees	(360,136)
Payments to vendors	(192,776)
Scholarships paid to students	(82,957)
Student loans issued	(3,627)
Other payments	(139)
Transfers:	
Intercampus reallocation	(14,677)
Other	8,782
Net cash flows from operating activities	<u>(197,908)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State of Nebraska noncapital appropriations	200,602
Private gifts and grants for operating use	28,700
Private gifts and bequests for endowment use	828
Net cash flows from noncapital financing activities	<u>230,130</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from the issuance of bonds	133,265
Grants and contracts	8,606
State of Nebraska capital appropriations	2,045
U.S. Government advances	112
Purchases of capital assets	(72,872)
Principal paid on bond obligations	(1,905)
Defeasance of bond obligations	-
Interest paid on bond obligations	(4,974)
Payments made on lease obligations	(3,237)
Net cash flows from capital and related financing activities	<u>61,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	113,121
Purchases of investments	(109,565)
Interest on investments	22,822
Interest on loans receivable	189
Net cash flows from investing activities	<u>26,567</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,829
CASH AND CASH EQUIVALENTS, Beginning of year	<u>182,736</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 302,565</u>

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

THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH AND CASH EQUIVALENTS - END OF YEAR AS
PRESENTED IN STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 117,037
Cash and cash equivalents - restricted (Current)	184,846
Cash and cash equivalents - restricted (Non-current)	<u>682</u>

Cash and cash equivalents - end of year \$ 302,565

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (227,006)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	29,305
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	(7,445)
Loans to students	162
Other current assets	(176)
Accounts payable	10,034
Accrued salaries, wages and post-retirement benefits	2,180
Deferred revenues and credits	<u>(4,962)</u>

Net cash flows from operating activities \$ (197,908)

NONCASH TRANSACTIONS:

Acquisition of capital assets through lease obligations	\$ 1,153
Increase in fair value of investments	13,205

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

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 52,488
Cash and cash equivalents - restricted	84,383
Investments	615
Accounts receivable and unbilled charges, net	45,597
Loans to students, net	2,648
Other current assets	1,967
Total current assets	<u>187,698</u>

NON-CURRENT ASSETS:

Investments	30,821
Investment in joint venture	147,866
Loans to students	10,435
Capital assets, net of accumulated depreciation	331,235
Other non-current assets	7,180
Total non-current assets	<u>527,537</u>
Total assets	<u>715,235</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	15,462
Accrued salaries, wages and post-retirement benefits	1,998
Accrued compensated absences	6,505
Bond obligations payable	110
Capital lease obligations	175
Capital lease obligations - UNFC	223
Deferred revenues and credits	8,273
Health and other insurance claims	750
Due to other campuses	97
Total current liabilities	<u>33,593</u>

NON-CURRENT LIABILITIES:

Accrued compensated absences, net of current portion	11,000
Bond obligations payable, net of current portion	5,320
Capital lease obligations - UNFC, net of current portion	1,044
Total non-current liabilities	<u>17,364</u>
Total liabilities	<u>50,957</u>

NET ASSETS:

Invested in capital assets, net of related debt	327,483
Restricted for:	
Nonexpendable:	
Permanent endowment	1,237
Investment in joint venture	147,866
Expendable:	
Externally restricted funds	93,703
Loan funds	15,195
Plant construction	(5,749)
Debt service	370
Unrestricted	<u>84,173</u>
Total net assets	<u>\$664,278</u>

THE UNIVERSITY OF NEBRASKA

(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER

ADDITIONAL INFORMATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

(Thousands)

OPERATING REVENUES	
Tuition and fees (net of scholarship allowances of \$4,091)	\$ 21,027
Federal grants and contracts-restricted	50,124
State and local grants and contracts - restricted	14,745
Private grants and contracts - restricted	72,575
Sales and services of educational activities	3,433
Sales and services of health care entities	109,069
Sales and services of auxiliary operations	11,170
Sales and services of auxiliary segments	55
Other operating revenues	132
Total operating revenues	<u>282,330</u>
OPERATING EXPENSES	
Salaries and wages	207,566
Benefits	44,744
Total compensation and benefits	252,310
Supplies and materials	44,932
Contractual services	51,644
Repairs and maintenance	17,648
Utilities	4,429
Communications	3,236
Depreciation	14,096
Scholarships and fellowships	5,872
Total operating expenses	<u>394,167</u>
TRANSFERS:	
Intercampus reallocation	(2,336)
Other	3,008
Total transfers	<u>672</u>
OPERATING LOSS	<u>(111,165)</u>
NON-OPERATING REVENUES (EXPENSES)	
State of Nebraska noncapital appropriations	101,374
Gifts	10,182
Investment income (net of investment management fees of \$20)	4,286
Increase in fair value of investments	3,661
Interest income on loans receivable	225
Interest expense on bond obligations	(118)
Equity in earnings of joint venture	19,349
Net non-operating revenues	<u>138,959</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>27,794</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
State of Nebraska capital appropriations	1,240
Capital grants and gifts	10,424
US Government advances	157
Loss on disposal of capital assets	(508)
Net other revenues, expenses, gains or losses	<u>11,313</u>
INCREASE IN NET ASSETS	39,107
NET ASSETS:	
Net assets, beginning of year	<u>625,171</u>
Net assets, end of year	<u>\$ 664,278</u>

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

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Grants and contracts	\$ 131,797
Tuition and fees	21,074
Sales and services of health care entities	108,967
Sales and services of auxiliary operations	10,266
Sales and services of auxiliary segments	57
Sales and services of educational activities	3,432
Other receipts	133
Student loans collected	2,708
Payments to employees	(250,761)
Payments to vendors	(121,467)
Scholarships paid to students	(5,872)
Student loans issued	(4,310)
Transfers:	
Intercampus reallocation	(2,336)
Other	3,008
Net cash flows from operating activities	<u>(103,304)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State of Nebraska noncapital appropriations	101,374
Private gifts and grants for operating use	10,182
Net cash flows from noncapital financing activities	<u>111,556</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Grants and contracts	10,419
State of Nebraska capital appropriations	1,171
U.S. Government advances	157
Proceeds from the issuance of bonds	5,430
Purchases of capital assets	(27,171)
Principal paid on bond obligations	(283)
Interest paid on bond obligations	(167)
Payments made on lease obligations	(397)
Net cash flows from capital and related financing activities	<u>(10,841)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	610
Purchases of investments	(153)
Interest on investments	4,297
Interest on loans receivable	225
Distributions from joint venture	3,000
Net cash flows from investing activities	<u>7,979</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 5,390

CASH AND CASH EQUIVALENTS, Beginning of year 131,481

CASH AND CASH EQUIVALENTS, End of year \$ 136,871

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

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH AND CASH EQUIVALENTS - END OF YEAR AS
PRESENTED IN STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 52,488
Cash and cash equivalents - restricted (Current)	<u>84,383</u>
Cash and cash equivalents - end of year	<u>\$ 136,871</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (111,165)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	14,096
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	(5,821)
Loans to students	(1,602)
Other current assets	(294)
Accounts payable	1,214
Accrued salaries, wages and post-retirement benefits	1,499
Deferred revenues and credits	<u>(1,231)</u>
Net cash flows from operating activities	<u>\$ (103,304)</u>

NONCASH TRANSACTIONS:

Increase in fair value of investments	\$ 3,661
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THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 16,692
Cash and cash equivalents - restricted	9,216
Accounts receivable and unbilled charges, net	6,295
Loans to students, net	1,560
Other current assets	<u>1,427</u>
Total current assets	<u>35,190</u>

NON-CURRENT ASSETS:

Investments	7,241
Loans to students	5,104
Capital assets, net of accumulated depreciation	118,229
Other non-current assets	<u>3,083</u>
Total non-current assets	<u>133,657</u>
Total assets	<u>168,847</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	2,464
Accrued salaries, wages and post-retirement benefits	5,714
Accrued compensated absences	701
Bond obligations payable	785
Due to other campuses	1,314
Deferred revenues and credits	<u>4,993</u>
Total current liabilities	<u>15,971</u>

NON-CURRENT LIABILITIES:

Accrued salaries, wages and post-retirement benefits, net of current portion	190
Accrued compensated absences, net of current portion	2,731
Bond obligations payable, net of current portion	19,950
Deferred revenues and credits, net of current portion	<u>2,814</u>
Total non-current liabilities	<u>25,685</u>
Total liabilities	<u>41,656</u>

NET ASSETS:

Invested in capital assets, net of related debt	97,787
Restricted for:	
Nonexpendable:	
Permanent endowment	936
Expendable:	
Externally restricted funds	1,766
Loan funds	7,726
Plant construction	3,535
Debt service	2,843
Unrestricted	<u>12,598</u>

Total net assets	<u>\$127,191</u>
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THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

OPERATING REVENUES:	
Tuition and fees (net of scholarship allowances of \$10,071)	\$ 42,790
Federal grants and contracts-restricted	13,569
State and local grants and contracts - restricted	2,924
Private grants and contracts - restricted	1,931
Sales and services of educational activities	4,446
Sales and services of auxiliary operations	6,715
Sales and services of auxiliary segments (net of scholarship allowances of \$300)	11,237
Other operating revenues	370
Total operating revenues	<u>83,982</u>
OPERATING EXPENSES:	
Salaries and wages	73,466
Benefits	17,271
Total compensation and benefits	90,737
Supplies and materials	24,162
Contractual services	4,372
Repairs and maintenance	3,254
Utilities	2,587
Communications	1,228
Depreciation	5,196
Scholarships and fellowships	10,328
Total operating expenses	<u>141,864</u>
TRANSFERS:	
Intercampus reallocation	(764)
Other	161
Total transfers	<u>(603)</u>
OPERATING LOSS	<u>(58,485)</u>
NON-OPERATING REVENUES (EXPENSES):	
State of Nebraska noncapital appropriations	49,894
Gifts	6,446
Investment income (net of investment management fees of \$10)	1,100
Increase in fair value of investments	566
Interest income on loans receivable	113
Interest expense on bond obligations	(583)
Net non-operating revenues	<u>57,536</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(949)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:	
US Government advances	304
Loss on disposal of capital assets	(411)
Total other revenues, expenses, gains or losses	<u>(107)</u>
DECREASE IN NET ASSETS	(1,056)
NET ASSETS:	
Net assets, beginning of year	<u>128,247</u>
Net assets, end of year	<u>\$127,191</u>

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

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Grants and contracts	\$ 19,347
Tuition and fees	42,988
Sales and services of auxiliary operations	7,543
Sales and services of auxiliary segments	11,237
Sales and services of educational activities	4,375
Other receipts	311
Student loans collected	1,688
Payments to employees	(90,622)
Payments to vendors	(34,420)
Scholarships paid to students	(10,328)
Student loans issued	(1,867)
Transfers:	
Intercampus reallocation	(764)
Other	161
Net cash flows from operating activities	<u>(50,351)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State of Nebraska noncapital appropriations	49,808
Private gifts and grants for operating use	5,946
Net cash flows from noncapital financing activities	<u>55,754</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from the issuance of bonds	15,400
U.S. Government advances	304
Purchases of capital assets	(14,089)
Principal paid on bond obligations	(475)
Interest paid on bond obligations	(452)
Net cash flows from capital and related financing activities	<u>688</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	4,708
Purchases of investments	(6,759)
Interest on investments	1,116
Interest on loans receivable	113
Net cash flows from investing activities	<u>(822)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,269
CASH AND CASH EQUIVALENTS, Beginning of year	<u>20,639</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 25,908</u>

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

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

CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN
STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 16,692
Cash and cash equivalents - restricted (Current)	<u>9,216</u>
Cash and cash equivalents - end of year	<u>\$ 25,908</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (58,485)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	5,196
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	(458)
Loans to students	(179)
Other current assets	229
Accounts payable	954
Accrued salaries, wages and post-retirement benefits	115
Deferred revenues and credits	<u>2,277</u>
Net cash flows from operating activities	<u>\$ (50,351)</u>

NONCASH TRANSACTIONS:

Increase in fair value of investments	\$ 566
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THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 11,702
Cash and cash equivalents - restricted	8,639
Accounts receivable and unbilled charges, net	1,178
Loans to students, net	555
Due from other campuses	198
Other current assets	316
Total current assets	<u>22,588</u>

NON-CURRENT ASSETS:

Investments	105
Loans to students	1,946
Capital assets, net of accumulated depreciation	60,716
Other non-current assets	228
Total non-current assets	<u>62,995</u>
Total assets	<u>85,583</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	1,485
Accrued salaries, wages and post-retirement benefits	3,594
Accrued compensated absences	257
Bond obligations payable	1,320
Capital lease obligations	31
Deferred revenues and credits	1,077
Total current liabilities	<u>7,764</u>

NON-CURRENT LIABILITIES:

Accrued salaries, wages and post-retirement benefits, net of current portion	153
Accrued compensated absences, net of current portion	1,139
Bond obligations payable, net of current portion	8,895
Capital lease obligations, net of current portion	87
Total non-current liabilities	<u>10,274</u>
Total liabilities	<u>18,038</u>

NET ASSETS:

Invested in capital assets, net of related debt	50,547
Restricted for:	
Nonexpendable:	
Permanent endowment	38
Expendable:	
Externally restricted funds	1,486
Loan funds	2,253
Plant construction	469
Debt service	6,805
Unrestricted	5,947
Total net assets	<u>\$ 67,545</u>

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

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

OPERATING REVENUES:	
Tuition and fees (net of scholarship allowances of \$5,533)	\$ 15,317
Federal grants and contracts-restricted	5,886
State and local grants and contracts - restricted	1,609
Private grants and contracts - restricted	303
Sales and services of educational activities	3,319
Sales and services of auxiliary operations	2,393
Sales and services of auxiliary segments (net of scholarship allowances of \$1,656)	7,993
Other operating revenues	200
Total operating revenues	<u>37,020</u>
OPERATING EXPENSES:	
Salaries and wages	33,877
Benefits	8,798
Total compensation and benefits	42,675
Supplies and materials	9,945
Contractual services	1,245
Repairs and maintenance	1,924
Utilities	2,094
Communications	949
Depreciation	2,907
Scholarships and fellowships	4,066
Total operating expenses	<u>65,805</u>
TRANSFERS:	
Intercampus reallocation	(1,292)
Other	1,301
Total transfers	<u>9</u>
OPERATING LOSS	<u>(28,776)</u>
NON-OPERATING REVENUES (EXPENSES):	
State of Nebraska noncapital appropriations	30,620
Gifts	1,038
Investment income (net of investment management fees of \$7)	514
Decrease in fair value of investments	(6)
Interest income on loans receivable	44
Interest expense on bond obligations	(489)
Net non-operating revenues	<u>31,721</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>2,945</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:	
State of Nebraska capital appropriations	524
Capital grants and gifts	872
US Government advances	(26)
Loss on disposal of capital assets	(152)
Net other revenues, expenses, gains or losses	<u>1,218</u>
INCREASE IN NET ASSETS	4,163
NET ASSETS:	
Net assets, beginning of year	<u>63,382</u>
Net assets, end of year	<u>\$ 67,545</u>

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Grants and contracts	\$ 7,860
Tuition and fees	15,423
Sales and services of auxiliary operations	2,439
Sales and services of auxiliary segments	8,027
Sales and services of educational activities	3,244
Other receipts	210
Student loans collected	707
Payments to employees	(42,691)
Payments to vendors	(15,987)
Scholarships paid to students	(4,066)
Student loans issued	(489)
Transfers:	
Intercampus reallocation	(1,292)
Other	1,301
Net cash flows from operating activities	<u>(25,314)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State of Nebraska noncapital appropriations	30,620
Private gifts and grants for operating use	1,101
Net cash flows from noncapital financing activities	<u>31,721</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from the issuance of bonds	3,705
Defeasance of bond obligations	(4,015)
Grants and contracts	312
State of Nebraska capital appropriations	651
U.S. Government advances	(26)
Purchases of capital assets	(2,150)
Principal paid on bond obligations	(1,290)
Interest paid on bond obligations	(555)
Payments made on lease obligations	(84)
Net cash flows from capital and related financing activities	<u>(3,452)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	100
Interest on investments	517
Interest on loans receivable	44
Net cash flows from investing activities	<u>661</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 3,616

CASH AND CASH EQUIVALENTS, Beginning of year 16,725

CASH AND CASH EQUIVALENTS, End of year \$ 20,341

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH AND CASH EQUIVALENTS - END OF YEAR AS
PRESENTED IN STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 11,702
Cash and cash equivalents - restricted (Current)	<u>8,639</u>
Cash and cash equivalents - end of year	<u>\$ 20,341</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (28,776)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	2,907
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	153
Loans to students	218
Other current assets	15
Accounts payable	155
Accrued salaries, wages and post-retirement benefits	(16)
Deferred revenues and credits	<u>30</u>
Net cash flows from operating activities	<u>\$ (25,314)</u>

NONCASH TRANSACTIONS:

Decrease in fair value of investments	\$ (6)
Capital grants and gifts	697

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

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 9,906
Cash and cash equivalents - restricted	2,667
Investments	26,571
Accounts receivable and unbilled charges, net	748
Total current assets	<u>39,892</u>

NON-CURRENT ASSETS:

Investments	27,665
Capital assets, net of accumulated depreciation	4,336
Total non-current assets	<u>32,001</u>
Total assets	<u>71,893</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	240
Accrued salaries, wages and post-retirement benefits	82
Accrued compensated absences	126
Capital lease obligations	803
Due to other campuses	539
Deferred revenues and credits	45
Health and other insurance claims	8,829
Total current liabilities	<u>10,664</u>

NON-CURRENT LIABILITIES:

Accrued salaries, wages and post-retirement benefits, net of current portion	18
Accrued compensated absences, net of current portion	582
Capital lease obligations, net of current portion	2,600
Total non-current liabilities	<u>3,200</u>
Total liabilities	<u>13,864</u>

NET ASSETS:

Invested in capital assets, net of related debt	933
Restricted for:	
Nonexpendable:	
Permanent endowment	22,672
Expendable:	
Externally restricted funds	2,187
Plant construction	138
Unrestricted	<u>32,099</u>
Total net assets	<u>\$ 58,029</u>

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

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

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

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Grants and contracts	\$ 1,944
Sales and services of auxiliary operations	154
Other receipts	1,206
Payments to employees	(5,048)
Payments to vendors	(4,559)
Scholarships paid to students	(701)
Transfers:	
Intercampus reallocation	<u>(58)</u>
Net cash flows from operating activities	<u>(7,062)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State of Nebraska noncapital appropriations	7,679
Private gifts and grants for operating use	259
Private gifts and bequests for endowment use	<u>1,283</u>
Net cash flows from noncapital financing activities	<u>9,221</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Grants and contracts	218
Purchases of capital assets	(404)
Interest paid on bond obligations	(174)
Payments made on lease obligations	<u>(782)</u>
Net cash flows from capital and related financing activities	<u>(1,142)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	34,828
Purchases of investments	(37,993)
Interest on investments	<u>1,981</u>
Net cash flows from investing activities	<u>(1,184)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(167)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>12,740</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 12,573</u>

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN
STATEMENT OF NET ASSETS:

Cash and cash equivalents (Current)	\$ 9,906
Cash and cash equivalents - restricted (Current)	<u>2,667</u>
Cash and cash equivalents - end of year	<u>\$ 12,573</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES:

Operating loss	\$ (6,131)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation expense	723
Changes in assets and liabilities:	
Accounts receivable	364
Other current assets	(1,185)
Accounts payable and unbilled charges, net	(82)
Accrued salaries, wages and post-retirement benefits	4
Deferred revenues and credits	3
Health and other insurance claims	<u>(758)</u>
Net cash flows from operating activities	<u>\$ (7,062)</u>

NONCASH TRANSACTIONS:

Increase in fair value of investments	\$ 1,768
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THE UNIVERSITY OF NEBRASKA
(A Component Unit of the State of Nebraska)

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

ASSETS

CURRENT ASSETS:

Cash and cash equivalents - restricted	\$ 31,790
Investments	5,605
Accounts receivable and unbilled charges, net	225
Capital lease obligation receivable - UNMC	<u>1,183</u>
Total current assets	<u>38,803</u>

NON-CURRENT ASSETS:

Investments	10,760
Capital lease obligation receivable - UNMC	2,588
Other non-current assets	<u>389</u>
Total non-current assets	<u>13,737</u>
Total assets	<u>52,540</u>

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES:

Accounts payable	3,205
Bond obligations payable	9,890
Due to other campuses	<u>1,500</u>
Total current liabilities	<u>14,595</u>

NON-CURRENT LIABILITIES:

Bond obligations payable, net of current portion	112,490
Deferred revenues and credits, net of current portion	<u>1,992</u>
Total non-current liabilities	<u>114,482</u>
Total liabilities	<u>129,077</u>

NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt	(122,380)
Restricted for:	
Expendable:	
Plant construction	18,436
Debt service	<u>27,407</u>
Total net assets (deficit)	<u>\$ (76,537)</u>

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

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

OPERATING EXPENSES:	
Repairs and maintenance	\$ 456
Total operating expenses	<u>456</u>
TRANSFERS:	
Intercampus reallocation	19,127
Other	<u>(13,252)</u>
Total transfers	<u>5,875</u>
OPERATING INCOME	5,419
NON-OPERATING REVENUES (EXPENSES):	
Investment income	918
Decrease in fair value of investments	(617)
Increase in lease obligation	1,153
Interest expense on bond obligations	<u>(6,711)</u>
Net non-operating revenues	<u>(5,257)</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>162</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES	
State of Nebraska capital appropriations	5,500
Capital grants and gifts	<u>6,885</u>
Net other revenues, expenses, gains or losses	<u>12,385</u>
INCREASE IN NET ASSETS (DEFICIT)	12,547
NET ASSETS (DEFICIT):	
Net assets (deficit), beginning of year	<u>(89,084)</u>
Net assets (deficit), end of year	<u>\$ (76,537)</u>

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

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Payments to vendors	\$ (10,063)
Transfers:	
Intercampus reallocation	19,127
Other	<u>(13,252)</u>
Net cash flows from operating activities	<u>(4,188)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from the issuance of bonds	3,410
Grants and contracts	9,365
State capital appropriations	5,500
Principal paid on bond obligations	(8,615)
Defeasance of bond obligations	(15,276)
Interest paid on bond obligations	<u>(6,732)</u>
Net cash flows from capital and related financing activities	<u>(12,348)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	1,599
Purchases of investments	(4,999)
Interest on investments	<u>960</u>
Net cash flows from investing activities	<u>(2,440)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,976)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>50,766</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 31,790</u>
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENT OF NET ASSETS:	
Cash and cash equivalents (Current) - end of year	<u>\$ 31,790</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	\$ 5,419
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Changes in assets and liabilities:	
Other current assets	215
Accounts payable	<u>(9,822)</u>
Net cash flows from operating activities	<u>\$ (4,188)</u>
NONCASH TRANSACTIONS:	
Acquisition of capital assets through lease obligations	\$ (1,153)
Decrease in fair value of investments	(617)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the University of Nebraska (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 30, 2004, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units* and states reliance on other auditors for the discretely presented component unit. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in a separate letter dated November 30, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

Lincoln, Nebraska
November 30, 2004