



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

*Basic Financial Statements and Additional Information for the
Years Ended June 30, 2006 and 2005 and Independent
Auditors' Reports*

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

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KPMG LLP

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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 financial statements of the business-type activities and discretely presented component unit of the University of Nebraska (the University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Nebraska Foundation (the Foundation), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us and appears herein, and our opinion insofar as it relates to the discretely presented component unit financial statements of the Foundation is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Nebraska, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and grant agreements 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.

Management's discussion and analysis on pages 4 through 16 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 audits for the years ended June 30, 2006 and 2005, were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying additional information for the years ended June 30, 2006 and 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information for the years ended June 30, 2006 and 2005 has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

Lincoln, Nebraska
November 17, 2006

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 statements of financial position of the University of Nebraska Foundation as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Nebraska Foundation at June 30, 2006 and 2005, and the results of its activities and the cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dana F. Cole + Company, LLP

Lincoln, Nebraska
August 4, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (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, 2006. 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 - Headcount

Campus	Fall Semester				
	2002	2003	2004	2005	2006
UNL	22,988	22,559	21,792	21,675	22,106
UNMC	2,819	2,865	2,904	3,002	3,067
UNO	14,451	13,997	13,824	14,093	13,906
UNK	6,395	6,379	6,382	6,445	6,468
Total	46,653	45,800	44,902	45,215	45,547

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

THE UNIVERSITY OF NEBRASKA

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED) (Columnar Amounts in Thousands)

In accordance with the guidance of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB 14*, the University of Nebraska Foundation's (the Foundation) financial statements are discretely presented with the University's financial statements. Management's discussion and analysis relates only to the University and does not include any overview of the financial position and activities of the Foundation. References to the Foundation within the analysis relate only to specific transactions with the University.

The fall semester (fiscal 2006) headcount enrollment was 45,500 plus students on the four campuses. This represents an increase of approximately 300 compared to the fall 2004 (fiscal 2005) reversing the decline trend of the previous three years. The primary driver behind the increase was UNL who posted an increase of 2%. Increasing enrollment is a strategic priority of the University and all campuses have devoted greater efforts to recruit both in-state and out-of-state students through such activities as improvement of student residences and facilities. The number of students enrolled in graduate and professional programs was 10,610, 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.** Total net assets and unrestricted net assets of the University grew by approximately 8% and 17%, respectively, and are attributable to several factors. First, the University's investment in the Nebraska Medical Center joint venture increased by \$31 million and is included in unrestricted net assets. Second, the trustee insurance balances increased approximately \$18 million reflecting the University efforts to maintain prudent levels of reserves for the general liability and property self-insurance and the employee group health insurance programs. Maintenance of a prudent level of reserves is a key to the long-term success of the University. Lastly, University management aggressively managed budgets to conserve resources.
- **New Capital Construction.** Investment in capital construction followed University priorities. The following projects align behind the higher education, research, and public service missions and thereby make the University more competitive in continuing to attract high caliber students and faculty. Projects completed during the year included the renovations of the UNK Bruner Hall of Science and Otto Olsen classroom and technology building; improvements to the UNK Foster Field; renovation of the UNL Harper, Schramm, Smith residence halls; construction of the UNL Husker Village residence hall complex; renovation of the UNL Biochemistry research facility; construction of a new UNL parking garage; the Library addition at the UNO campus; and the Tom and Nancy Osborne Athletic Complex at UNL. Construction was begun on the Sorrell Center for Health Science Education, a new focal point for medical and health sciences education at UNMC.
- **Indebtedness.** The University took advantage of the interest rate environment by refinancing certain outstanding bonds at UNK and UNL. Financial performance in the areas financed by revenue bonds (unions, student residences, and parking) led to strong debt coverage ratios and allowed issuance of additional bonds to continue the planned replacement and renewal of facilities. New money this year funded parking at UNL and new student housing at UNK. The University will continue to take advantage of internally generated profits and cash flow to replace and renew these strategic assets.

THE UNIVERSITY OF NEBRASKA

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED) (Columnar Amounts in Thousands)

- ***Increase in state appropriations.*** State appropriations increased by 7%, the largest in many years. One of the major impacts of receiving state appropriations at this level was that it allowed the Board of Regents and University management to keep tuition increases to 5%. At the same time, the University used this funding opportunity to invest in faculty salaries and to add additional funding for its programs of excellence initiative. The University will continue to work with the State with the hope of attracting similar levels of investment which will be invested by management strategically while at the same time using such funding to keep college affordable.

The Governor and the State Legislature joined the University in another initiative, known as LB 605. Under this initiative, the State and the University will devote capital appropriations and tuition revenues to fund a major renewal and renovation program. These revenues fueled a \$111 million borrowing in July, 2006 which will be utilized for 13 buildings on all four campuses.

- ***Capital grants and gifts.*** Capital grants and gifts continue to be an important source of funding for facilities at the University. Capital grants and gifts totaled \$18 million in 2006. The largest of these gifts were approximately \$6 million received for Foster Field at UNK and \$10 million of donations relating to the UNMC Research Center for Excellence buildings.

Using the Financial Statements

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

Statement of Net Assets. The Statement of Net Assets includes all of the assets and liabilities of the University and its component units on the accrual basis of accounting. The difference between total assets and total liabilities represents the net assets of the University and is one indicator of its overall current financial condition. Over time, increases or decreases in the University's net assets 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 Net of Related Debt. The University's total investment in capital assets less accumulated depreciation and outstanding bond obligations incurred to acquire, construct, or improve those assets.
- Restricted net assets:

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FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

- Expendable: funds externally restricted by creditors, grantors, or contributors and includes grant and research funds, student loan programs, funds for plant construction, and debt service on bond obligations.
- Non-expendable: permanent endowments.
- Unrestricted Net Assets. Comprised of the University's investment in the joint venture of the Nebraska Medical Center (NMC) of \$194 million, quasi-endowments of \$29 million, net assets of the healthcare blended entities of \$58 million, with the balance representing designated departmental balances, encumbrances, and working capital funds.

Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets 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, the 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 year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Condensed Financial Statements and Analysis

Condensed Statements of Net Assets

	June 30,		
	2006	2005	2004
Assets			
Current assets	\$ 676,329	\$ 611,599	\$ 682,405
Capital assets, net of accumulated depreciation	1,122,917	1,086,969	998,446
Other non-current assets	516,670	473,588	407,660
Total assets	<u>2,315,916</u>	<u>2,172,156</u>	<u>2,088,511</u>
Liabilities and Net Assets			
Current liabilities	204,868	199,978	177,226
Non-current liabilities	408,584	398,037	417,352
Total liabilities	<u>613,452</u>	<u>598,015</u>	<u>594,578</u>
Net assets:			
Invested in capital assets, net of related debt	741,018	744,118	702,947
Restricted for:			
Nonexpendable:			
Permanent endowment	200,376	182,941	174,577
Expendable:			
Externally restricted funds	122,382	111,000	119,575
Loan funds	44,290	43,783	42,551
Plant construction	35,710	14,182	12,740
Debt service	93,053	81,874	76,734
Unrestricted	465,635	396,243	364,809
Total net assets	<u>\$ 1,702,464</u>	<u>\$ 1,574,141</u>	<u>\$ 1,493,933</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2006	2005	2004
Operating Revenues:			
Tuition and fees	\$ 195,281	\$ 186,987	\$ 168,882
Federal grants and contracts - restricted	260,104	271,603	250,092
State grants and contracts - restricted	27,724	28,019	25,770
Private grants and contracts - restricted	91,912	54,822	51,826
Sales and services of educational activities	58,187	47,802	44,536
Sales and services of health care entities	146,512	141,006	134,438
Sales and services of auxiliary operations	120,287	106,852	107,883
Sales and services of auxiliary segments	61,410	56,461	53,011
Other operating revenues	8,298	6,616	8,747
Total operating revenues	<u>969,715</u>	<u>900,168</u>	<u>845,185</u>
Operating Expenses:			
Salaries and wages	686,449	646,072	608,205
Benefits	156,696	157,919	144,885
Total compensation and benefits	<u>843,145</u>	<u>803,991</u>	<u>753,090</u>
Supplies and materials	218,705	205,242	196,228
Contractual services	86,040	78,073	87,283
Repairs and maintenance	40,492	45,909	39,516
Utilities	32,096	27,812	26,612
Communications	13,844	12,059	12,449
Depreciation	59,711	57,583	52,227
Scholarships and fellowships	120,834	111,083	103,924
Total operating expenses	<u>1,414,867</u>	<u>1,341,752</u>	<u>1,271,329</u>
Operating Loss	<u>(445,152)</u>	<u>(441,584)</u>	<u>(426,144)</u>
Non-operating Revenues (Expenses):			
State of Nebraska non-capital appropriations	429,270	398,933	390,188
Gifts	58,463	53,089	46,625
Investment income	51,709	27,836	31,518
Increase (decrease) in fair value of investments	(6,276)	4,655	18,577
Interest on loans receivable	420	465	572
Interest on bond obligations	(17,018)	(18,855)	(15,730)
Capitalized interest on bond obligations	1,654	6,442	-
Equity in joint venture	43,898	18,218	19,349
Net non-operating revenues	<u>562,120</u>	<u>490,783</u>	<u>491,099</u>
Income before Other Revenues, Expenses, Gains or Losses	116,968	49,199	64,955
Other Revenues, Expenses, Gains or Losses:			
State of Nebraska capital appropriations	9,933	12,976	9,309
Capital grants and gifts	17,909	19,750	21,575
Capital grant to Nebraska Medical Center	(10,000)	-	-
U.S. government advances	171	1,394	546
Additions to permanent endowments	2,440	1,227	2,110
Loss on disposal of plant assets	(9,098)	(4,338)	(6,030)
Net other revenues, expenses, and gains or losses	<u>11,355</u>	<u>31,009</u>	<u>27,510</u>
Increase in net assets	128,323	80,208	92,465
Net Assets:			
Net assets, beginning of year	1,574,141	1,493,933	1,401,468
Net assets, end of year	<u>\$ 1,702,464</u>	<u>\$ 1,574,141</u>	<u>\$ 1,493,933</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Analysis of Financial Position. Cash and cash equivalents represent the preponderance of current assets of the University. In 2006, cash and cash equivalents increased over the prior year due to higher yields gained on cash balances in the state investment pool and unexpended bond proceeds on hand.

Non-current assets of the University are dominated by the investment in capital assets. At June 30, 2006 total investment in capital assets was \$1.6 billion, yielding a net investment, after accumulated depreciation, of \$1.1 billion. The net increase in capital assets was \$36 million, consisting of net additions of \$96 million less depreciation of \$60 million. Among the more noteworthy increases were student housing at UNL of \$55 million, the Biochemistry building at UNL at \$15 million, and Foster Field at UNK with \$9 million of improvements. These increases were funded by revenue bond proceeds in the case of the student housing and by private funds in the latter two additions.

The unrestricted net assets of the University grew by 17% or \$69 million during the year to \$466 million. As discussed earlier, the growth is primarily attributable to the University's equity in the NMC joint venture and positive experiences in self-insurance activities that saw balances grow by \$18 million.

Analysis of Operations – Overview. The University generated \$970 million of operating revenues during 2006, an increase of \$70 million over 2005, while operating expenses were \$1,415 million, up \$73 million over the prior year. These changes increased the operating loss by \$3 million to \$445 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.

If appropriations were added to the operating loss as displayed in the statements of revenues, expenses, and changes in net assets, the University's "operating loss after appropriations" would have been \$16 million in 2006 compared to a similar loss of \$43 million in 2005. To management of the University, this strengthened financial performance is yielded by a good level of state support combined with modest tuition and increased grants and contract activity.

The Nebraska Legislature provided \$429 million in non-capital appropriations for 2006, an increase of \$30 million over 2005. The University, in conjunction with the Foundation, generated gifts amounting to approximately \$76 million that, when combined with all and other non-operating revenues and expenses including investment income of \$52 million, netted an overall increase in net assets of about \$128 million.

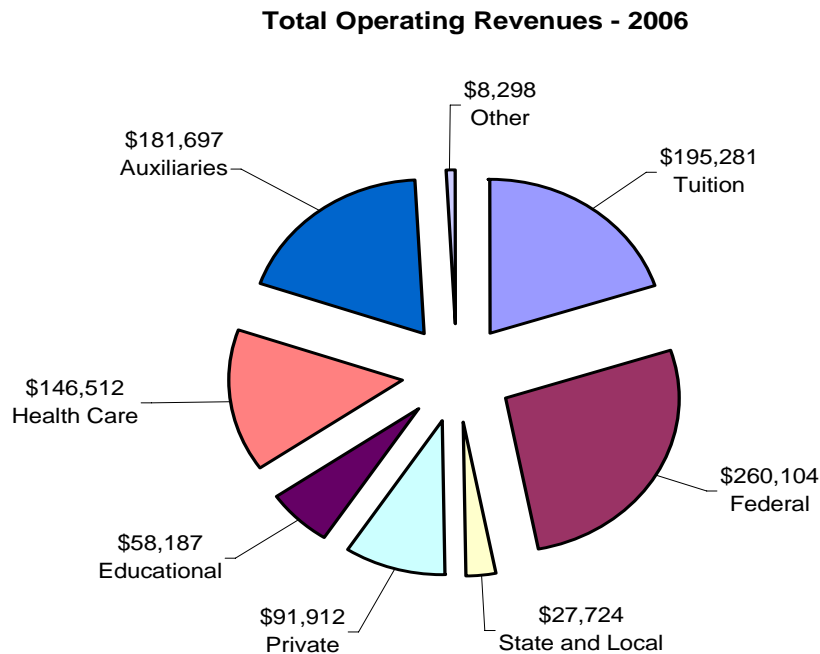
Revenues. The University's operating revenues increased in fiscal 2006 by 8%, or \$69 million. Most of the revenue sources showed increases from the prior year.

- One of the largest increases in revenue dollars was realized in private grants and contracts. The \$37 million increase is attributable primarily to School as Lender Program, \$15 million; Alternative Student Loans, \$3 million; a combined increase of \$3 million from educational research and health organizations in support of medical studies; increased support from the University Foundation; and grants from the Nebraska Medical Center and other private sources for scholarships, research, and academic programs.

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(Columnar Amounts in Thousands)

- Tuition, net of scholarship allowances, increased by \$8 million dollars, or 4%, for the 2005-2006 year. The Board of Regents approved an increase in tuition of 5%, but an increase in scholarship allowances of 6% reduced the overall tuition yield to 4%. Scholarship allowances were increased for additional Board of Regents Scholarships.
- The decrease in Federal grants and contracts is attributed to funds for graduate student loans coming to the University as a private source under the School as Lender Program, \$15 million, instead of the Ford Direct Student Loan Program.
- Sales and services of educational activities increased 22%. This change can be traced to an increase in technology fees and increases in conference activities.
- Sales and services of auxiliary operations increased because of revenues from newly constructed student residences and an increase in athletic revenues that stems from additional major sponsors and an increase in ticket prices.



THE UNIVERSITY OF NEBRASKA
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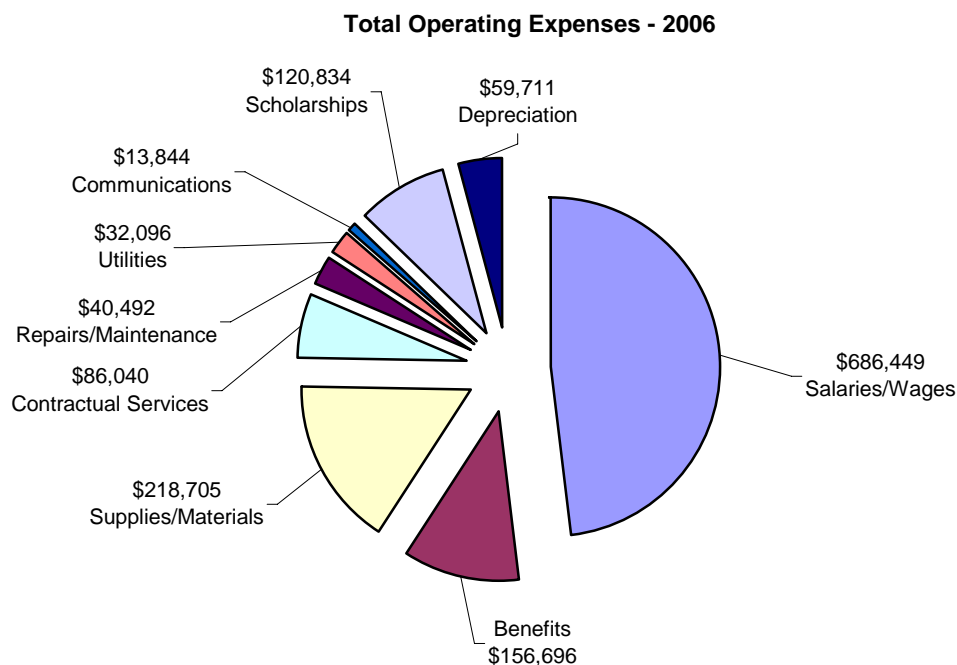
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Expenses. Operating expenses were \$1,415 million for the 2006 fiscal year, an increase of 5% compared to 2005. Changes in the major expense classifications follow.

- Compensation and benefits increased by \$39 million in 2006 compared to 2005. Faculty salaries and benefits increases averaged 3.7%. Additional amounts were expended for targeted areas including programs of excellence funding for instructional workload salaries, research initiative programs, and intercampus development.
- Utilities increased by 15% indicative of the higher cost of fossil fuels for heating and airconditioning the instruction and research facilities and student residences.
- Supplies and materials increased by 7% reflecting increases for the purchase of materials to support the instruction and research programs.
- Contractual services increased 10% primarily because of an increased number of sub-grants to other research institutions on collaborative research projects.
- Repairs and maintenance expenses declined in 2006 compared to 2005 due to a lesser number of renovation projects, but show an increase over 2004 which indicates the University strives to keep academic and research facilities in good condition.
- Communication expenses increased almost \$2 million reflecting the higher cost of communication and telephone service.
- Scholarships and fellowships grew by \$10 million during 2006. The campuses increased scholarships in an effort to maintain affordability.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Non-Operating Revenues (Expenses). Net non-operating revenues increased during 2006 compared to 2005 by \$71 million. This change is the result of an increase in state non-capital appropriations of \$30 million, an increase in investment income of \$24 million, an increase of \$26 million in equity in joint venture, and offset by a year-over-year decrease in fair value of investments of \$11 million.

Thanks to continued strong support from the private sector and the Foundation, the University garnered non-capital gifts and capital gifts during the year of \$58 million and \$18 million respectively. The latter figure funded \$6 million for the renovation of Foster Field located on the UNK campus and \$10 million for development of the Research Center of Excellence at UNMC.

Other Revenues, Expenses, Gains, or Losses. State of Nebraska capital appropriations revenues declined in 2006 compared to 2005 as construction projects were completed. The capital appropriation to complete the UNO Library addition and \$5.5 appropriated by the Legislature to fund debt service on the UNFC Deferred maintenance Bonds, Series, 1998, comprise state capital appropriations.

The loss on the disposal of plant assets of \$9 million in 2006, \$4 million in 2005, and \$6 million in 2004 represent equipment disposed during the year that has been worn out or has become obsolete. Other disposals include buildings and land improvements that have been completely or partially razed, to make way for new construction and renovations.

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(Columnar Amounts in Thousands)

Capital Assets

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

- Suite-style residential housing, Husker Village, was completed for \$26 million. These housing units were financed by the 2003B Student Fees and Facilities Bonds and are included as a member of the obligated group under the Master Trust Indenture (MTI).
- Completed renovation of the Harper, Schramm, Smith student residence to improve the comfort of living space for students at a cost of \$29 million. This project was also financed by the 2003B Student Fees and Facilities Bonds of the MTI.
- Construction costs of \$23 million were incurred for the construction of the 2004 UNL Memorial Stadium Project. The project is comprised of the Tom and Nancy Osborne Athletic Complex, expanded seating in the North Stadium, construction of a new indoor field house, and other improvements to Memorial Stadium.
- Foster Field at the UNK campus was completed at a cost of \$9.8 million and was financed by capital gifts from the Foundation.
- The UNO Library addition was completed for \$5.2 million and was funded by capital gifts from the Foundation.
- The Bruner Hall of Science and the Otto Olsen Building at UNK were projects completed for a cost of \$6.5 million and \$1.5 million, respectively. Both of these projects were financed by the UNFC Deferred Maintenance Bonds.
- Construction was begun during 2006 on the UNMC Sorrell Center for Health Science Education with \$5.3 million of costs being added to construction work in progress.
- Fire and life safety projects were completed on all campuses. Funding for these projects came from capital appropriations for this purpose by the Legislature through the State's Task Force for Building Renewal.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Debt Activity

Bond Financings and Refinancings. On July 6, 2005 the Board of Regents issued \$26,925 of Revenue and Refunding Bonds, Series 2005 (University of Nebraska – Lincoln Parking Project). The proceeds were used to construct an approximately 843-space addition to a multi-level parking garage located at 14th and Avery Streets for an approximate cost of \$8,200 and to provide for the redemption of \$18,885 outstanding Revenue Bonds, Series 2000 (University of Nebraska-Lincoln Parking Project).

On July 1, 2005 the Board of Regents issued \$6,085 of Refunding Bonds, Series 2005 (University of Nebraska at Kearney Student Fees and Facilities Bonds) to refund \$5,895 of outstanding Series 2000 Revenue Refunding Bonds (University of Nebraska at Kearney Student Fees and Facilities Bonds).

On July 10, 2005 the Board of Regents authorized the redemption of the University of Nebraska at Kearney Student Fees and Facilities Revenue Bonds, Series 1966, maturing on July 1, 2006 from surplus funds held for these Revenue Bonds. The call of the outstanding Series 1966 bonds permitted the University of Nebraska at Kearney Student Fees and Facilities Housing Operations to become a member of the University of Nebraska Master Trust Indenture.

On January 12, 2006 the Board of Regents issued \$22,625 of Revenue Bonds, Series 2006 (University of Nebraska at Kearney Student Fees and Facilities Bonds). The proceeds will be used to construct a new residence hall to house 332 students. The new residence will include two- and four-bedroom suites and community space for lounges, laundry facilities, and residence hall directors at an approximate cost of \$21,780.

The Board of Regents of the University of Nebraska Members of the Obligated Group under the MTI has bonds outstanding from the construction of student housing and parking. The financial position of the MTI remains strong with operating income that provided a debt service ratio of 1.58 times for the year ended June 20, 2006 and 1.45 times for the year ended June 30, 2005. The debt service ratio required by the MTI covenants is 1.15 times. As previously mentioned, UNK student fees and facilities became a member of the Master Trust Indenture during 2006.

The UNFC met all debt service requirements during 2006. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Project, which is combined with designated tuition revenues for debt service. The Foundation continues to receive funds from donor gifts pledged toward the funding of the University of Nebraska Medical Center Research Center project. Funds from internal University sources continue to meet expectations allowing the service of UNFC-related debt obligations in their normal course.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006 (UNAUDITED)
(Columnar Amounts in Thousands)

Economic Outlook and Subsequent Events That Will Affect the Future

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

Management of the University is encouraged by signs that the partnership is strengthening, which gives renewed confidence to the University as it looks forward. One of the strategic initiatives of the University's Board of Regents is the creation of competitive facilities. The Governor and the State Legislature in the past legislative session signaled their agreement with this priority by passing LB 605. LB 605 is designed to invest \$137 million new state dollars over the next 15 years toward renewal and renovation projects. This program will greatly enhance and improve facilities to better serve today's students and grow the research enterprise. The capital appropriation came on the heels of operating budget increases of 7% and 6% for the two years in the biennium that ends June 30, 2007. These are the largest operating increases in many years.

The economic performance of the State also offers promising prospects. The State Tax Commissioner recently reported that State receipts through the four months ended October 31, 2006, were \$39 million or 4% over projections. This followed a fiscal year ended June 30, 2006, where the State recorded receipts \$358 million or 7.6% in excess of projected revenues.

In a focused effort to chart the future direction of resource deployment at the University of Nebraska, the President and the Board of Regents have set forth a strategic framework and priorities that will guide the University. These will help the University better serve Nebraskans through quality teaching, research, and outreach and engagement. Among those priorities are:

- Enrollment. Growing enrollment through a number of initiatives including growing the college-going rate.
- Tuition. Keeping tuition increases as low as possible and thereby the cost of education more affordable.
- Graduation. Increasing the graduation rate.
- Research. Bolstering current endeavors and fostering new activities that will allow the University to continue to earn greater success in attracting research funding.
- Administrative costs. Focusing on achieving decreases in administrative costs in both the academic and business enterprises.
- Faculty Salaries. Continuing to pursue and identify resources that can be earmarked to enhance faculty salaries to facilitate even greater successes in recruitment and retention.

Again, the future of the State of Nebraska is closely tied to that of its only public university and the framework and priorities will guide University planning, helping to build and sustain a Nebraska that offers its citizens educational and economic opportunity and a high quality of life.

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

STATEMENTS OF NET ASSETS

JUNE 30, 2006 and 2005

(Thousands)

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

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 221,912	\$ 217,060
Cash and cash equivalents - restricted	227,969	226,269
Investments - restricted	85,541	48,511
Accounts receivable and unbilled charges, net	116,622	95,715
Loans to students, net	8,589	8,389
Other current assets	15,696	15,655
Total current assets	<u>676,329</u>	<u>611,599</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	7,153	1,543
Investments - restricted	270,846	264,323
Investment in joint venture	193,982	163,084
Loans to students, net of current portion	26,520	28,362
Capital assets, net of accumulated depreciation	1,122,917	1,086,969
Other non-current assets	18,169	16,276
Total non-current assets	<u>1,639,587</u>	<u>1,560,557</u>
Total assets	<u>2,315,916</u>	<u>2,172,156</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	47,250	50,742
Accrued salaries, wages, and post-retirement benefits	38,994	34,889
Accrued compensated absences	14,609	13,488
Bond obligations payable	22,405	24,880
Capital lease obligations	3,387	3,682
Deferred revenues and credits	68,951	61,742
Health and other insurance claims	9,272	10,555
Total current liabilities	<u>204,868</u>	<u>199,978</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages and post-retirement benefits, net of current portion	1,574	1,462
Accrued compensated absences, net of current portion	36,173	31,068
Bond obligations payable, net of current portion	351,815	343,715
Capital lease obligations, net of current portion	10,821	13,578
Deferred revenues and credits, net of current portion	8,201	8,214
Total non-current liabilities	<u>408,584</u>	<u>398,037</u>
Total liabilities	<u>613,452</u>	<u>598,015</u>
NET ASSETS:		
Invested in capital assets, net of related debt	741,018	744,118
Restricted for:		
Nonexpendable:		
Permanent endowment	200,376	182,941
Expendable:		
Externally restricted funds for scholarships, student aid and research	122,382	111,000
Loan funds	44,290	43,783
Plant construction	35,710	14,182
Debt service	93,053	81,874
Unrestricted	<u>465,635</u>	<u>396,243</u>
Total net assets	<u>\$1,702,464</u>	<u>\$1,574,141</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 STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 1,283	\$ 458
Temporary cash investments	166,557	143,353
Advances and deposits	8	8
Accounts receivable (net of reserve for bad debts of \$9 in 2006 and \$13 in 2005)	456	488
Accrued interest receivable	1,872	1,757
Student loan receivable	492	505
Matching funds receivable	1	1
Prepaid expenses	42	78
Pledges receivable - restricted	94,414	77,933
Investments - restricted	1,103,866	994,611
Property and equipment, net of depreciation	<u>5,552</u>	<u>5,984</u>
Total assets	<u>\$ 1,374,543</u>	<u>\$ 1,225,176</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Advances and accounts payable	\$ 231	\$ 295
University of Nebraska benefits payable	1,850	2,078
Scholarships, research, fellowships, and professorships payable	3,263	4,257
Accrued vacation payable	521	475
Taxes payable	50	53
Deferred annuities payable	22,240	22,903
Deposits held in custody for others	193,164	176,317
Total liabilities	<u>221,319</u>	<u>206,378</u>
NET ASSETS:		
Unrestricted	5,945	8,335
Temporarily restricted	371,033	318,399
Permanently restricted	<u>776,246</u>	<u>692,064</u>
Total net assets	<u>1,153,224</u>	<u>1,018,798</u>
Total liabilities and net assets	<u>\$ 1,374,543</u>	<u>\$ 1,225,176</u>

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

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

	2006	2005
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$57,183 and \$53,849 in 2006 and 2005, respectively)	\$ 195,281	\$ 186,987
Federal grants and contracts - restricted	260,104	271,603
State and local grants and contracts - restricted	27,724	28,019
Private grants and contracts - restricted	91,912	54,822
Sales and services of educational activities	58,187	47,802
Sales and services of health care entities	146,512	141,006
Sales and services of auxiliary operations	120,287	106,852
Sales and services of auxiliary segments (net of scholarship allowances of \$6,881 and \$6,225 in 2006 and 2005, respectively)	61,410	56,461
Other operating revenues	8,298	6,616
Total operating revenues	<u>969,715</u>	<u>900,168</u>
OPERATING EXPENSES:		
Salaries and wages	686,449	646,072
Benefits	156,696	157,919
Total compensation and benefits	843,145	803,991
Supplies and materials	218,705	205,242
Contractual services	86,040	78,073
Repairs and maintenance	40,492	45,909
Utilities	32,096	27,812
Communications	13,844	12,059
Depreciation	59,711	57,583
Scholarships and fellowships	120,834	111,083
Total operating expenses	<u>1,414,867</u>	<u>1,341,752</u>
OPERATING LOSS	<u>(445,152)</u>	<u>(441,584)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	429,270	398,933
Gifts	58,463	53,089
Investment income (net of investment management fees of \$1,896 and \$1,698 in 2006 and 2005, respectively)	51,709	27,836
Increase (decrease) in fair value of investments	(6,276)	4,655
Interest income on loans receivable	420	465
Interest expense on bond obligations	(17,018)	(18,855)
Capitalized interest on bond obligations	1,654	6,442
Equity in earnings of joint venture	43,898	18,218
Net non-operating revenues	<u>562,120</u>	<u>490,783</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>116,968</u>	<u>49,199</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	9,933	12,976
Capital grants and gifts	17,909	19,750
Capital grant to Nebraska Medical Center	(10,000)	-
U.S. Government advances	171	1,394
Private gifts and bequests for permanent endowments	2,440	1,227
Loss on disposal of capital assets	(9,098)	(4,338)
Net other revenues, expenses, gains, or losses	<u>11,355</u>	<u>31,009</u>
INCREASE IN NET ASSETS	<u>128,323</u>	<u>80,208</u>
NET ASSETS:		
Net assets, beginning of year	<u>1,574,141</u>	<u>1,493,933</u>
Net assets, end of year	<u>\$1,702,464</u>	<u>\$1,574,141</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, 2006
(Thousands)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Gifts, bequests, and life insurance proceeds	\$ 48	\$ 92,994	\$ 34,140	\$ 127,182
Investment income	15,088	12,741	908	28,737
Realized gain (loss) on sale of assets	-	7,035	65,613	72,648
Unrealized gain (loss) on assets	-	28	15,605	15,633
	<u>15,136</u>	<u>112,798</u>	<u>116,266</u>	<u>244,200</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Total support and revenue	<u>92,247</u>	<u>(64,667)</u>	<u>(27,580)</u>	<u>-</u>
	<u>107,383</u>	<u>48,131</u>	<u>88,686</u>	<u>244,200</u>
EXPENSES:				
Salaries and wages	7,300	-	-	7,300
Payroll taxes	509	-	-	509
Employee benefits	1,224	-	-	1,224
Annuity payments	2	-	-	2
Postage	235	-	-	235
Office supplies and expense	145	-	-	145
Professional services	306	-	-	306
Travel and entertainment	483	-	-	483
Telephone	187	-	-	187
Insurance and bonds	126	-	-	126
Repair and maintenance	159	-	-	159
Equipment rental/purchase	43	-	-	43
Office rent	814	-	-	814
University Towers expense	9	-	-	9
Promotion expense	1,054	-	-	1,054
Auto expense	80	-	-	80
Dues and subscriptions	117	-	-	117
Alumni associations	517	-	-	517
Miscellaneous expense	91	-	-	91
Data processing expense	-	-	-	-
Recruiting and moving expense	6	-	-	6
Meetings and conferences	231	-	-	231
Investment expense	5,579	-	-	5,579
Academic support	25,920	-	-	25,920
Student assistance	18,820	-	-	18,820
Faculty assistance	4,186	-	-	4,186
Research	3,909	-	-	3,909
Museum, library, and fine arts	1,595	-	-	1,595
Campus and building improvements	32,189	-	-	32,189
Deferred compensation	163	-	-	163
Paid to beneficiaries	3,107	-	-	3,107
Bad debt and collection expense	5	-	-	5
Depreciation	663	-	-	663
Total	<u>109,774</u>	<u>-</u>	<u>-</u>	<u>109,774</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS AND CHANGES				
	(2,391)	48,131	88,686	134,426
TRANSFERS AND RECLASSIFICATIONS BETWEEN FUNDS				
	-	4,504	(4,504)	-
INCREASE (DECREASE) IN NET ASSETS				
	(2,391)	52,635	84,182	134,426
NET ASSETS, beginning of year				
	<u>8,335</u>	<u>318,399</u>	<u>692,064</u>	<u>1,018,798</u>
NET ASSETS, end of year				
	<u>\$ 5,944</u>	<u>\$371,034</u>	<u>\$776,246</u>	<u>\$ 1,153,224</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, 2005

(Thousands)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Gifts, bequests, and life insurance proceeds	\$ 56	\$ 44,817	\$ 33,795	\$ 78,668
Investment income	14,554	13,553	(696)	27,411
Realized gain (loss) on sale of assets	(14)	1,666	45,667	47,319
Unrealized gain (loss) on assets	-	2,356	13,215	15,571
	<u>14,596</u>	<u>62,392</u>	<u>91,981</u>	<u>168,969</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Total support and revenue	<u>96,277</u>	<u>6,354</u>	<u>66,338</u>	<u>168,969</u>
EXPENSES:				
Salaries and wages	6,916	-	-	6,916
Payroll taxes	489	-	-	489
Employee benefits	1,066	-	-	1,066
Annuity payments	2	-	-	2
Postage	175	-	-	175
Office supplies and expense	103	-	-	103
Professional services	163	-	-	163
Travel and entertainment	368	-	-	368
Telephone	159	-	-	159
Insurance and bonds	100	-	-	100
Repair and maintenance	138	-	-	138
Equipment rental/purchase	38	-	-	38
Office rent	812	-	-	812
University Towers expense	9	-	-	9
Promotion expense	808	-	-	808
Auto expense	73	-	-	73
Dues and subscriptions	119	-	-	119
Alumni associations	508	-	-	508
Miscellaneous expense	94	-	-	94
Data processing expense	6	-	-	6
Recruiting and moving expense	17	-	-	17
Meetings and conferences	224	-	-	224
Investment expense	4,347	-	-	4,347
Academic support	22,347	-	-	22,347
Student assistance	18,614	-	-	18,614
Faculty assistance	4,101	-	-	4,101
Research	5,680	-	-	5,680
Museum, library, and fine arts	1,924	-	-	1,924
Campus and building improvements	24,273	-	-	24,273
Deferred compensation	42	-	-	42
Paid to beneficiaries	2,901	-	-	2,901
Bad debt and collection expense	31	-	-	31
Depreciation	658	-	-	658
Total	<u>97,305</u>	<u>-</u>	<u>-</u>	<u>97,305</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS AND CHANGES				
	(1,028)	6,354	66,338	71,664
TRANSFERS AND RECLASSIFICATIONS BETWEEN FUNDS				
	<u>-</u>	<u>4,296</u>	<u>(4,296)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS				
	(1,028)	10,650	62,042	71,664
NET ASSETS, beginning of year				
	<u>9,363</u>	<u>307,749</u>	<u>630,022</u>	<u>947,134</u>
NET ASSETS, end of year				
	<u>\$ 8,335</u>	<u>\$318,399</u>	<u>\$692,064</u>	<u>\$ 1,018,798</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 364,176	\$ 345,284
Tuition and fees	194,858	185,529
Sales and services of health care entities	135,718	143,211
Sales and services of auxiliary operations	122,348	110,062
Sales and services of educational activities	77,632	68,125
Sales and services of auxiliary segments	60,902	56,649
Student loans collected	9,332	8,967
Other receipts	29,614	14,670
Payments to employees	(824,606)	(767,560)
Payments to vendors	(430,781)	(415,264)
Scholarships paid to students	(120,834)	(111,082)
Student loans issued	(7,804)	(9,476)
Other payments	(163)	(314)
Net cash flows from operating activities	<u>(389,608)</u>	<u>(371,199)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	428,991	399,324
Private gifts and grants for operating use	54,258	53,066
Private gifts and bequests for endowment use	2,341	1,227
Net cash flows from non-capital financing activities	<u>485,590</u>	<u>453,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	55,635	-
Gifts	17,076	16,680
State of Nebraska capital appropriations	10,214	12,971
U.S. Government advances	171	1,394
Purchases of capital assets	(98,472)	(134,237)
Defeasance of bond obligations	(24,780)	-
Interest paid on bond obligations	(17,924)	(20,087)
Principal paid on bond obligations	(25,230)	(14,360)
Payment of bond financial expense	(429)	-
Payments made on lease obligations	(4,350)	(8,634)
Net cash flows from capital and related financing activities	<u>(88,089)</u>	<u>(146,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	145,446	116,224
Purchases of investments	(194,456)	(168,324)
Interest on investments	49,859	27,319
Distributions received from joint venture	3,000	3,000
Interest on loans receivable	420	459
Net cash flows from investing activities	<u>4,269</u>	<u>(21,322)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,162	(85,177)
CASH AND CASH EQUIVALENTS, beginning of year	<u>444,872</u>	<u>530,049</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 457,034</u>	<u>\$ 444,872</u>

(Continued)

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

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

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

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 221,912	\$ 217,060
Cash and cash equivalents - restricted (current)	227,969	226,269
Cash and cash equivalents - restricted (non-current)	<u>7,153</u>	<u>1,543</u>
Cash and cash equivalents, end of year	<u>\$ 457,034</u>	<u>\$ 444,872</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (445,152)	\$ (441,584)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	59,711	57,583
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(21,742)	(5,121)
Loans to students	1,643	(432)
Other current assets	1,189	(974)
Accounts payable	(1,507)	3,937
Accrued salaries, wages, and post-retirement benefits	10,626	11,058
Deferred revenues and credits	6,907	4,003
Health and other insurance claims	<u>(1,283)</u>	<u>331</u>
Net cash flows from operating activities	<u>\$ (389,608)</u>	<u>\$ (371,199)</u>
NON-CASH TRANSACTIONS:		
Capital gifts and grants	\$ 6,048	\$ 877
Increase (decrease) in fair value of investments	(6,276)	4,655
Purchase of capital assets through lease obligations	1,298	12,546

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 STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 134,427	\$ 71,664
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	663	658
Gain on sale of assets	(72,648)	(47,319)
Appreciation of assets	(15,632)	(15,571)
(Increase) decrease in pledges receivable	(16,481)	(2,826)
Increase in deferred annuities payable	663	320
Contribution to permanently restricted endowment funds	(34,140)	(33,795)
Real and personal property contributions received for the University	(621)	(1,126)
(Increase) decrease in:		
Accounts receivable	29	(116)
Interest receivable	(115)	(4)
Prepaid expense	36	32
Increase (decrease) in:		
Advances and accounts payable	(65)	(477)
University of Nebraska benefits payable	(228)	394
Scholarships, research, fellowships, and professorships payable	(994)	1,012
Accrued vacation payable	45	52
Taxes payable	(2)	17
Deposits held in custody for others	17,375	5,841
Total adjustments	<u>(122,115)</u>	<u>(92,908)</u>
Net cash provided by operating activities	<u>12,312</u>	<u>(21,244)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in temporary cash investments	(23,204)	2,842
Net decrease in student loans	13	132
Net purchases in investments	(22,202)	(15,407)
Purchase of property and equipment	(234)	(282)
Sales of property and equipment	-	6
Net cash used in investing activities	<u>(45,627)</u>	<u>(12,709)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution to permanently restricted endowment funds	34,140	33,796
Net cash provided by financing activities	<u>34,140</u>	<u>33,796</u>
NET INCREASE IN CASH	825	(157)
CASH AND CASH EQUIVALENTS, beginning of year	<u>458</u>	<u>615</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,283</u>	<u>\$ 458</u>

REQUIRED DISCLOSURE:

The Foundation expended no cash for interest or income taxes.

See notes to financial statements.

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A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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- The University of Nebraska Facilities Corporation (UNFC) was organized to finance the construction, repair, and renovation of buildings and the acquisition of land and equipment and to hold them in trust for the University. UNFC is governed by a Board of Directors comprised of the Board of Regents.
- The UNMC Physicians 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). UNMC Physicians 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. UNeMed acts under the authority of the Board of Regents and its fiscal year-end is December 31.
- 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 (UNL). NUCorp is governed by a five-member Board, three of which are University officials. NUCorp's fiscal year end is December 31.
- The Peter Kiewit Institute Technology Development Corporation (PKITDC) is a not-for-profit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research.

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

The University of Nebraska Foundation's (the Foundation) financial statements are discretely presented within the University's financial statements. The Foundation is a non-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code whose purpose is to provide financial support for the University system. The Foundation reports under FASB standards, including FASB Statement No. 117, *Financial 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).

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

Cash and Cash Equivalents – Cash and cash equivalents 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. These funds are considered to be cash and cash equivalents, which are available for expenditures as needed. The investments of the pool include Commercial Paper, U.S. Government Securities, Federal Agency Debt Instruments, Corporate Bonds, Money Market Funds, and Bank Deposits. Additional information on the pool can be found in the State of Nebraska's Comprehensive Annual Financial Report.

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

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

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

Capital Assets – Land improvements, leasehold improvements, buildings, and equipment are stated at cost at the date of acquisition. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets 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. It is the University's policy that library books are not capitalized.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by University during the current fiscal year was \$17,018. Of this amount, \$1,654 was included as part of the cost of capital assets.

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

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, unearned income on direct financing leases, and cash received in advance for grants and contracts.

Amortization of Bond Financial Expense and Bond Premium or Discount – Bond financial expense and premium or discount are being amortized or accreted to interest expense on a method that approximates the level-yield method.

Classification of Revenues – The University has classified its revenues as either operating or non-operating 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.

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

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

Unrestricted Gifts – Revenue is recognized when an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received.

Scholarships and Fellowships – The University receives funds that are restricted by donors and grantors for aid to students. When these funds are granted to students or when scholarships and fellowships are provided through student tuition waiver, the University records the expense for student aid and the

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corresponding revenue. Accordingly, at June 30, 2006 and 2005, Federal grants and contracts includes Pell grant awards amounting to \$18,811 and \$20,007 and Ford direct student loans amounting to \$60,402 and \$71,277, respectively. The combined awards of \$79,213 and \$91,284 at June 30, 2006 and 2005, respectively, 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain 2005 amounts have been reclassified to conform to the current-year presentation.

Recent Statements Issued by the Government Accounting Standards Board – The GASB has 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. DEPOSITS

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Bank balances of cash and cash equivalents deposited in banks amounted to approximately \$2,898 (book balance of approximately \$2,653) at June 30, 2006, with approximately \$1,451 at June 30, 2006, covered by federal depository insurance. Bank balances of cash and cash equivalents deposited in banks amounted to approximately \$2,090 (book balance of approximately \$1,176) at June 30, 2005, with approximately \$1,519 at June 30, 2005,

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covered by federal depository insurance. Of the remaining bank balance at June 30, 2006 and 2005, approximately \$1,191 and \$347 was collateralized with securities held by the pledging financial institution, but not in the University's name, and approximately \$256 and \$224 was uninsured and uncollateralized, respectively.

C. INVESTMENTS

Funds held for the support of University operations, excluding trust funds, are invested according to State statute by the State Investment Officer. Regulatory oversight is provided by the Nebraska Investment Council. The University's fair value in the Nebraska Investment Council's investment pool is equal to its pool units. University trust funds are invested by the University 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.

Investments are as follows as of June 30, 2006:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
U.S. treasuries	\$ 22,618	\$ 7,063	\$ 6,747	\$ 8,261	\$ 547
U.S. agencies	58,270	34,366	19,981	2,709	1,214
Corporate debt	36,124	3,994	18,491	3,919	9,720
Repurchase agreements	<u>5,823</u>	<u>-</u>	<u>-</u>	<u>5,823</u>	<u>-</u>
	122,835	<u>\$ 45,423</u>	<u>\$ 45,219</u>	<u>\$ 20,712</u>	<u>\$ 11,481</u>
Other investments:					
Equity securities - domestic	146,487				
Equity securities - international	29,661				
Mutual funds	47,111				
Real estate mutual funds	9,253				
Real estate held for investment purposes	640				
Money markets	<u>400</u>				
Total	<u>\$ 356,387</u>				

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Investments are as follows as of June 30, 2005:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
U.S. treasuries	\$ 16,319	\$ 4,417	\$ 6,940	\$ 4,501	\$ 461
U.S. agencies	63,129	37,340	23,295	1,506	988
Corporate debt	21,950	1,136	16,098	3,390	1,326
Repurchase agreements	<u>5,823</u>	<u>-</u>	<u>-</u>	<u>5,823</u>	<u>-</u>
	107,221	<u>\$ 42,893</u>	<u>\$ 46,333</u>	<u>\$ 15,220</u>	<u>\$ 2,775</u>
Other investments:					
Equity securities - domestic	111,516				
Equity securities - international	12,880				
Mutual funds	68,008				
Real estate mutual funds	7,524				
Real estate held for investment purposes	640				
Money markets	<u>5,045</u>				
Total	<u>\$ 312,834</u>				

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

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

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	2006					
	Fair Value	Quality Ratings				
		AAA	AA	A	BAA - BBB	Unrated
Investment type:						
Debt securities:						
U.S. treasuries	\$ 22,618	\$ 22,618	\$ -	\$ -	\$ -	\$ -
U.S. agencies	58,270	54,123	56	4,091	-	-
Corporate debt	36,124	11,994	9,076	13,975	883	196
Repurchase agreements	5,823	-	-	-	-	5,823
Other investments:						
Equity securities - domestic	146,487	-	-	-	-	146,487
Equity securities - international	29,661	-	-	-	-	29,661
Mutual funds	47,111	-	-	-	-	47,111
Real estate mutual funds	9,253	-	-	-	-	9,253
Real estate held for investment purposes	640	-	-	-	-	640
Money markets	400	-	-	-	-	400
	<u>\$ 356,387</u>	<u>\$ 88,735</u>	<u>\$ 9,132</u>	<u>\$ 18,066</u>	<u>\$ 883</u>	<u>\$ 239,571</u>

	2005					
	Fair Value	Quality Ratings				
		AAA	AA	A	BAA - BBB	Unrated
Investment type:						
Debt securities:						
U.S. treasuries	\$ 16,319	\$ 16,319	\$ -	\$ -	\$ -	\$ -
U.S. agencies	63,129	62,233	601	295	-	-
Corporate debt	21,950	4,853	7,650	8,268	1,034	145
Repurchase agreements	5,823	-	-	-	-	5,823
Other investments:						
Equity securities - domestic	111,516	-	-	-	-	111,516
Equity securities - international	12,880	-	-	-	-	12,880
Mutual funds	68,008	-	-	-	-	68,008
Real estate mutual funds	7,524	-	-	-	-	7,524
Real estate held for investment purposes	640	-	-	-	-	640
Money markets	5,045	-	-	-	-	5,045
	<u>\$ 312,834</u>	<u>\$ 83,405</u>	<u>\$ 8,251</u>	<u>\$ 8,563</u>	<u>\$ 1,034</u>	<u>\$ 211,581</u>

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Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University’s investments are in the following investment types at June 30:

	<u>2006</u>	<u>2005</u>
	Concentration	
Federal Home Loan Bank	12%	16%
Federal National Mortgage Association	25%	33%
U.S. treasuries	18%	15%
Federal Farm Credit Bank	6%	7%
Federal Home Loan Mortgage Association	5%	–
FSA Capital Markets Services	–	5%

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are stated at fair value and are uninsured, unregistered, and held by the trustee or an agent, but not in the name of the University. Of the University’s \$5.8 million investment in repurchase agreements in 2006 and 2005, \$6.2 million of underlying securities are held by the investment’s counterparty, but not in the name of the University.

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 \$6,182 and \$6,347 at June 30, 2006 and 2005, respectively. In addition, the University maintains an allowance for doubtful collections of student loans of approximately \$1,241 and \$1,762 at June 30, 2006 and 2005, respectively.

E. INVESTMENT IN JOINT VENTURE

The University and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 forming the Nebraska Health System, a Nebraska non-profit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint venture under the equity method. The University has recorded 50% equity in earnings of NMC for the years ended June 30, 2006 and 2005 totaling \$43,898 and \$18,218, respectively. In addition, to the extent that sufficient funds are available, as determined by the NMC Board of Directors, the University will receive an annual capital distribution. A distribution of \$3,000 was declared by NMC and paid out to the University during both fiscal years 2006 and 2005.

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

In conjunction with the Joint Operating Agreement, the University entered into an agreement to lease the former hospital building to NMC that extends through 2037. The hospital building is recorded 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:

2007	\$ 4,000
2008	4,009
2009	3,997
2010	4,004
2011	4,099
2012-2014	<u>1,737</u>
	<u>\$21,846</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 years ended June 30, 2006 and 2005, respectively, the University received approximately \$22,273 and \$21,678 of support in connection with the agreement.

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F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005 is as follows:

	2006			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 52,789	\$ 2,114	\$ (52)	\$ 54,851
Land improvements	92,733	16,846	(2,597)	106,982
Leasehold improvements	13,209	-	-	13,209
Buildings	1,047,475	88,449	(17,028)	1,118,896
Equipment	240,421	23,499	(14,743)	249,177
Construction work in progress	124,934	79,589	(105,736)	98,787
Total capital assets	<u>1,571,561</u>	<u>210,497</u>	<u>(140,156)</u>	<u>1,641,902</u>
Less accumulated depreciation for:				
Land improvements	32,682	3,837	(2,400)	34,119
Leasehold improvements	760	441	-	1,201
Buildings	301,747	32,100	(13,724)	320,123
Equipment	149,403	23,333	(9,194)	163,542
Total accumulated depreciation	<u>484,592</u>	<u>59,711</u>	<u>(25,318)</u>	<u>518,985</u>
Capital assets, net	<u>\$1,086,969</u>	<u>\$150,786</u>	<u>\$(114,838)</u>	<u>\$1,122,917</u>
	2005			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 47,797	\$ 5,169	\$ (177)	\$ 52,789
Land improvements	81,707	13,017	(1,991)	92,733
Leasehold improvements	12,534	675	-	13,209
Buildings	1,006,792	72,607	(31,924)	1,047,475
Equipment	228,803	27,736	(16,118)	240,421
Construction work in progress	92,914	111,231	(79,211)	124,934
Total capital assets	<u>1,470,547</u>	<u>230,435</u>	<u>(129,421)</u>	<u>1,571,561</u>
Less accumulated depreciation for:				
Land improvements	30,043	3,499	(860)	32,682
Leasehold improvements	305	455	-	760
Buildings	299,829	31,736	(29,818)	301,747
Equipment	141,924	21,893	(14,414)	149,403
Total accumulated depreciation	<u>472,101</u>	<u>57,583</u>	<u>(45,092)</u>	<u>484,592</u>
Capital assets, net	<u>\$ 998,446</u>	<u>\$172,852</u>	<u>\$(84,329)</u>	<u>\$1,086,969</u>

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G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2006	<u>\$ 44,556</u>	<u>\$ 38,787</u>	<u>\$ (32,561)</u>	<u>\$ 50,782</u>	<u>\$ 14,609</u>
2005	<u>\$ 41,358</u>	<u>\$ 30,704</u>	<u>\$ (27,506)</u>	<u>\$ 44,556</u>	<u>\$ 13,488</u>

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2006	<u>\$ 368,595</u>	<u>\$ 55,635</u>	<u>\$ (50,010)</u>	<u>\$ 374,220</u>	<u>\$ 22,405</u>
2005	<u>\$ 382,955</u>	<u>\$ -</u>	<u>\$ (14,360)</u>	<u>\$ 368,595</u>	<u>\$ 24,880</u>

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Bond obligations payable at June 30, 2006 and 2005 consist of the following:

	Interest Rate	2006		2005
		Annual Installment	Principal Amount Outstanding	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	2.60 - 5.00%	\$915 - \$2,760	\$ 13,555	\$ 14,455
Series 2003A, revenue bonds, due through July 2037	2.95 - 5.25%	405 - 1,595	25,930	25,930
Series 2003B, revenue bonds, due through July 2038	2.50 - 5.00%	1,085 - 3,890	68,885	68,885
Lincoln parking project:				
Series 2000, parking revenue bonds, due through June 2020	4.95 - 5.80%	765 - 3,685	—	18,885
Series 2003, revenue refunding, due through June 2016	2.50 - 4.50%	440 - 1,615	6,855	7,525
Series 2005, revenue refunding, due through June 2025	2.85 - 4.50%	425 - 3,825	25,840	—
University of Nebraska at Omaha:				
Student center Series 2003:				
Revenue refunding bonds, due through May 2013	2.45 - 3.90%	495 - 1,180	4,370	4,855
Student housing Series 2003:				
Revenue bonds, due through May 2033	2.15 - 5.00%	315 - 945	14,785	15,095
University of Nebraska Medical Center:				
Student housing revenue bonds				
Series 2003, due through June 2033	2.15 - 5.00%	110 - 330	5,210	5,320
University of Nebraska at Kearney:				
Student fees and facilities:				
Series 1966, due through July 2006	4.30%	505	—	505
Series 2000, due through July 2020	4.90 - 5.50%	240 - 1,150	—	5,895
Series 2003, due through July 2011	1.85 - 2.90%	300 - 465	2,090	2,495
Series 2005, due through July 2020	2.85 - 4.10%	270 - 1,080	5,815	—
Series 2006, due through July 2035	3.45 - 5.00%	340 - 1,385	22,625	—
Total obligations under the master trust indenture			<u>195,960</u>	<u>169,845</u>
Other University obligations:				
University of Nebraska-Lincoln:				
Athletics:				
2004A, revenue refunding, due November 2024	4.00 - 5.25%	1,695 - 5,195	51,430	53,330
2004B, revenue refunding, due November 2024	2.50 - 5.25%	1,920 - 3,270	9,225	11,050
Total University obligations			<u>256,615</u>	<u>234,225</u>
Obligations of blended entities:				
University of Nebraska Facilities Corporation:				
Series 1998 bonds (deferred maintenance project), due through July 2011	4.35 - 5.25%	3,470 - 9,155	44,400	51,435
Series 1998-2 bonds (UNMC electrical system project) due through October 2008	4.15 - 4.30%	255 - 275	795	1,035
Series 2002 bonds (Research Center of Excellence project), due through February 2015	4.00 - 5.00%	3,070 - 21,215	44,610	53,905
Series 2003 (Alexander building project), due through December 2023	1.05 - 5.00%	105 - 205	2,600	2,705
Series 2004 (library storage project), due through July 15, 2024	1.50 - 5.00%	110 - 565	3,320	3,410
Total University of Nebraska Facilities Corporation			<u>95,725</u>	<u>112,490</u>
Nebraska Utility Corporation (NUCorp):				
Series 2001 revenue bonds, due through January 2023	4.50 - 5.25%	720 - 1,620	21,880	21,880
Total bond obligations payable			<u>\$ 374,220</u>	<u>\$ 368,595</u>

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Annual maturities subject to mandatory redemption at June 30, 2006 are as follows:

	<u>Total University</u>		<u>UNFC</u>		<u>NUCorp</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,495	\$ 11,587	\$ 12,190	\$ 4,528	\$ 720	\$ 1,084	\$ 22,405	\$ 17,199
2008	10,270	11,247	11,585	3,938	750	1,051	22,605	16,236
2009	13,105	10,789	11,700	3,368	785	1,017	25,590	15,174
2010	16,165	10,294	11,840	2,793	815	983	28,820	14,070
2011	9,530	9,616	3,710	2,328	855	946	14,095	12,890
2012-2016	51,150	42,161	41,270	5,938	6,090	3,955	98,510	52,054
2017-2021	47,850	30,532	1,665	648	7,245	2,176	56,760	33,356
2022-2026	44,585	18,775	1,765	191	4,620	372	50,970	19,338
Thereafter	54,465	17,109	-	-	-	-	54,465	17,109
Total	<u>\$256,615</u>	<u>\$162,110</u>	<u>\$ 95,725</u>	<u>\$23,732</u>	<u>\$21,880</u>	<u>\$11,584</u>	<u>\$374,220</u>	<u>\$197,426</u>

At June 30, 2006 and 2005, the trustees for these bond funds held cash and investments in the amount of approximately \$158,264 and \$161,265, respectively, which is reflected as restricted cash and investments on the statements of net assets.

Master Trust Indenture - The Board of Regents entered into a master trust indenture dated as of June 1, 1995 (as amended and supplemented from time to time, 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, 2006, 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), (e) certain student housing facilities at the University of Nebraska Medical Center (UNMC Student Housing), and (f) the student housing facilities on the University of Nebraska Kearney campus (UNK Student Fees and Facilities) (collectively, the Obligated Group). The accumulated surplus revenues, fees, and other payments of such Obligated Group have been jointly pledged to the payment of revenue bonds issued with respect to such facilities. Other facilities will be added to the Obligated Group and the revenues, fees, and other payments derived from such facilities will be pledged under the Indenture in the future as circumstances permit.

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

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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 a gross revenue pledge of certain revenues and fees of the athletic department, with such payment being prior to the payment of expenditures with respect to Memorial Stadium operations. Those revenues and fees include all Memorial Stadium ticket income, current skybox revenues, current club seating revenues, donations with respect to a new premium seating program involving approximately 6,400 seats, and all donations pledged to the construction of the 2004 Memorial Stadium Project.

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

University of Nebraska Facilities Corporation

The UNFC bonds are not obligations of the State and no tax shall ever be levied to raise the funds for the principal payment thereof or the interest or premium thereon. The UNFC bonds do not constitute debt of the Board of Regents of the University, but shall be payable solely out of monies derived from designated tuition revenues, legislative appropriations, and UNMC lease payments.

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 airconditioning 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 (now known as the Durham Research Center) 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 Foundation, has obtained pledges approximating \$85,000 for payment of the costs of these projects. The pledges will be received in installments through 2011.

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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 Board of 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 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 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 UNMC.

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 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.

Bond Financing and Refinancing

On July 6, 2005, the Board of Regents issued \$26,925 of Revenue and Refunding Bonds, Series 2005 (University of Nebraska – Lincoln Parking Project.) The proceeds were used to construct an approximately 843-space addition to a multi-level parking garage located at 14th and Avery streets for an

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approximate cost of \$8,200 and to provide for the redemption of \$18,885 outstanding Revenue Bonds, Series 2000 (University of Nebraska-Lincoln Parking Project) on August 1, 2005. The refunding reduced total debt service payments by approximately \$3,099 and resulted in an economic gain of \$1,438. The accounting loss of \$262 is deferred and amortized over the life of the 2005 bonds.

On July 1, 2005, the Board of Regents issued \$6,085 of Refunding Bonds, Series 2005 (University of Nebraska at Kearney Student Fees and Facilities Bonds) to refund \$5,895 of outstanding Series 2000 Revenue Refunding Bonds (University of Nebraska at Kearney Student Fees and Facilities Bonds). The Series 2000 Revenue Refunding Bonds were called on August 16, 2005. The refunding reduced total debt service payments by approximately \$857 and resulted in an economic gain of approximately \$549. The accounting loss of \$244 is deferred and amortized over the life of the 2005 bonds.

On July 10, 2005, the Board of Regents authorized the redemption of the University of Nebraska at Kearney Student Fees and Facilities Revenue Bonds, Series 1966, maturing on July 1, 2006 from surplus funds held for these Revenue Bonds. The early redemption on July 10, 2005 of the Series 1966 Bonds resulted in net interest savings of approximately \$10. Additionally, the University of Nebraska at Kearney Student Fees and Facilities Housing Operations became a member of the University of Nebraska Master Trust Indenture upon the redemption of the Series 1966 Revenue Bonds.

On January 12, 2006, the Board of Regents issued \$22,625 of Revenue Bonds, Series 2006 (University of Nebraska at Kearney Student Fees and Facilities Bonds). The proceeds will be used to construct new residence halls to house 332 students. The new residence will include two and four-bedroom suites and community space for lounges, laundry facilities, and residence hall directors at an approximate cost of \$21,780.

Bond Resolutions

The bond resolutions specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for each funds' investments. The bond resolutions also require that specified amounts be deposited with the trustee for certain funds. At June 30, 2006 and 2005, the University and UNFC are in compliance with these requirements.

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I. CAPITAL LEASE OBLIGATIONS

The University is presently leasing real property, buildings, and equipment with either the option to purchase or transfer of title at the expiration of the lease term, of capital leases outstanding at June 30, 2006 and 2005, \$9,025 and \$11,215, respectively, are leases with the Foundation.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2006	<u>\$ 17,260</u>	<u>\$ 1,298</u>	<u>\$ 4,350</u>	<u>\$ 14,208</u>	<u>\$ 3,387</u>
2005	<u>\$ 13,348</u>	<u>\$ 12,546</u>	<u>\$ 8,634</u>	<u>\$ 17,260</u>	<u>\$ 3,682</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
2007	\$ 3,293	\$ 584	\$ 3,877
2008	2,483	538	3,021
2009	1,578	48	1,626
2010	1,578	22	1,600
2011	1,563	-	1,563
Thereafter	5,149	-	5,149
	<u>15,644</u>	<u>1,192</u>	<u>16,836</u>
Less interest and executory costs	<u>2,585</u>	<u>43</u>	<u>2,628</u>
	<u>\$ 13,059</u>	<u>\$ 1,149</u>	<u>\$ 14,208</u>

Capital assets held under capital lease obligations at June 30, 2006 are as follows:

	Cost	Accumulated Depreciation	Net
Buildings	\$ 33,459	\$ 2,643	\$ 30,816
Equipment	<u>1,576</u>	<u>682</u>	<u>894</u>
	<u>\$ 35,035</u>	<u>\$ 3,325</u>	<u>\$ 31,710</u>

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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, 2004	\$ 750	\$ 3,429	\$ 5,400	\$ 9,579
Incurred claims	777	720	82,451	83,948
Payments on claims	<u>(132)</u>	<u>(1,389)</u>	<u>(81,451)</u>	<u>(82,972)</u>
Claim reserve, June 30, 2005	1,395	2,760	6,400	10,555
Incurred claims	362	1,384	76,225	77,971
Payments on claims	<u>(99)</u>	<u>(1,630)</u>	<u>(77,525)</u>	<u>(79,254)</u>
Claim reserve, June 30, 2006	<u>\$ 1,658</u>	<u>\$ 2,514</u>	<u>\$ 5,100</u>	<u>\$ 9,272</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, and 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 that provides coverage from \$500 up to \$1,750 for each medical malpractice claim. Settled claims have not exceeded insurance coverage in any of the past three years.

The Board of Regents provides for faculty and staff group health and dental benefits through a self-insurance program. The University accrued an estimate for known 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.

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At June 30, 2006 and 2005, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$56,130 and \$37,089, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents on the statements of net assets.

K. RETIREMENT PLANS

The University has a defined contribution retirement plan currently in effect that the Board of Regents established and has the authority to amend. The plan covers all academic faculty, administrative, and classified staff and provides investment options administered by Teachers Insurance and Annuity Association/College Retirement Equity Fund and Fidelity Investments. Under the plan, faculty and staff are required to contribute 3.5% or 5.5% if they participate in either Tier 1 or Tier 2 of the plan, respectively. The University matches faculty and staff participation by contributing 6.5% and 8.0% for Tier 1 and Tier 2, respectively. The University's policy is to fund costs accrued on an annual basis.

The University's total payroll for fiscal years 2006 and 2005 was approximately \$666,260 and \$631,633, respectively, of which approximately \$507,429 and \$482,712 was covered by the plan. The University's contribution during 2006 and 2005 was approximately \$39,289, or 7.74%, and \$34,862, or 7.2%, of covered payroll, respectively, and the faculty and staff's contribution was approximately \$26,225, or 5.17%, and \$24,911, or 5.2%, of covered payroll, respectively.

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

UNMC Physicians has two defined contribution money purchase pension plans established under Section 401(a) of the Internal Revenue Code that are administered by a bank. Together, these plans cover substantially all employees who meet age and length of service requirements of the plans. The plans are funded through UNMC Physicians contributions based upon a fixed percentage of the employees' salary. Total pension expense was \$7,698 and \$6,805 for the years ended June 30, 2006 and 2005, respectively.

The GASB issued Statement No. 47, *Accounting for Termination Benefits*. Statement No. 47 requires a disclosure of the termination benefit liability incurred during the year for retirement plans. The University offered a tenure buyout option to faculty under a 1997 plan and a 2003 plan both of which plans are now closed. Both plans offered a buyout to faculty in exchange for tenured rights and included a provision for the University to pay health insurance premiums until the faculty member for a specified term. Currently, the administration may agree to a tenure buyout arrangement with a selected faculty member, but the buyout option is not generally open to the faculty. The expense incurred during 2006 for the health insurance liability under new tenure buyout arrangements was \$238. The expense incurred for 2006 health insurance premium increases under all tenure buyout arrangements was \$559. The total estimated termination benefit obligation at June 30, 2006 was \$2,485.

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L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of facilities that are estimated to cost approximately \$351,819. As of June 30, 2006, the approximate remaining costs to complete these facilities were \$111,023, which will be financed as follows:

Bond funds	\$ 28,901
Federal funds	2,750
University funds	42,370
State capital appropriations	2,047
Private gifts, grants, and contracts	<u>34,955</u>
	<u>\$ 111,023</u>

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

The University established its Agricultural Research and Development Center 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 1970s. In 1990, the NOP became a Federal Superfund site. An administrative order has been entered into between the Board of Regents and the Environmental Protection Agency (EPA) requiring a remedial investigation/feasibility study to determine the extent of contamination and removal actions necessary. A contractual arrangement has been entered into between the Board of Regents and an engineering and consulting firm to perform the remedial investigation/feasibility study. This study is currently underway, but not completed. The cost of remediation and restoration of the area and the liability of affected parties cannot be determined until the completion of the remediation study and selection of remediation methods by the EPA.

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 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, 2006 and 2005, NMC purchased approximately \$42,603 and \$32,452 of goods and services from the University, respectively.

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In October 2002, the Board of Regents approved a contingent commitment of funds to assist in the construction of the Clinical Center of Excellence. The amount advanced through June 30, 2005 was \$9,000 with an additional \$1,000 advanced in 2006. The \$10,000 was forgiven in 2006 and is included in supplies and materials.

As of June 30, 2006, the University established a receivable to recognize a commitment of \$10,000 by the NMC Board of Directors toward the construction of the UNMC Center for Health Science Education Building. This amount is included in other non-current assets in the statements of net assets.

As of June 30, 2006 and 2005, capital lease obligations include \$8,008 and \$9,657 due to the Foundation under various lease agreements and \$1,017 and \$1,558 due to the Foundation for the Ballpark Project, respectively. The Ballpark Project is a project that 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.

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N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2006:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$311,846	\$ 32,027	\$ 8,225	\$ 1,409	\$ 19	\$ 2,867	\$ 2,595	\$ -	\$ 358,988
Research	134,264	38,707	33,094	4,449	59	1,154	1,561	-	213,288
Public service	56,619	11,633	8,827	1,094	513	811	250	-	79,747
Academic support	63,200	13,914	1,412	7,427	2	1,705	103	-	87,763
Student services	16,308	5,275	120	-	2	310	440	-	22,455
Institutional support	57,454	15,880	5,083	1,765	64	1,618	1,179	-	83,043
Operation and maintenance of plant	23,474	8,723	3,591	18,369	28,633	335	3	-	83,128
Healthcare entities	108,339	14,172	13,240	1,046	110	461	54	-	137,422
Scholarships and fellowships	2,579	251	1,201	-	-	-	113,444	-	117,475
Auxiliary operations	69,062	78,123	11,247	4,933	2,694	4,583	1,205	-	171,847
Depreciation	-	-	-	-	-	-	-	59,711	59,711
Total expenses	\$843,145	\$218,705	\$86,040	\$ 40,492	\$32,096	\$13,844	\$120,834	\$59,711	\$1,414,867

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For the year ended June 30, 2005:

	Compen- sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi- cations	Scholarships and Fellowships	Deprecia- tion	Total
Instruction	\$300,433	\$ 33,607	\$ 7,305	\$ 81	\$ 20	\$ 2,813	\$ 2,115	\$ -	\$ 346,374
Research	129,738	36,309	31,026	6,540	74	1,144	1,565	-	206,396
Public service	67,554	12,873	9,948	1,203	586	861	293	-	93,318
Academic support	60,144	14,921	1,852	9,513	8	1,366	111	-	87,915
Student services	14,154	3,660	133	331	1	299	473	-	19,051
Institutional support	54,886	13,497	3,022	2,185	67	1,296	1,109	-	76,062
Operation and maintenance of plant	21,809	8,949	3,248	16,027	25,019	348	-	-	75,400
Healthcare entities	89,493	3,890	11,231	9,668	83	397	-	-	114,762
Scholarships and fellowships	2,586	295	988	361	-	-	103,890	-	108,120
Auxiliary operations	63,194	77,241	9,320	-	1,954	3,535	1,527	-	156,771
Depreciation	-	-	-	-	-	-	-	57,583	57,583
Total expenses	\$803,991	\$205,242	\$78,073	\$45,909	\$27,812	\$12,059	\$111,083	\$57,583	\$1,341,752

THE UNIVERSITY OF NEBRASKA
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O. AUXILIARY SEGMENT

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

UNL Student Fees and Facilities Bonds, Series 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.

University of Nebraska Revenue Bonds, Series 2000, Series 2003, and Series 2005 – These bonds are used to provide parking-related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consists of parking fee revenues.

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 bookstore and food services are the primary sources of operating revenues.

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 consist primarily of rentals and student fees.

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.

UNK Student Fees and Facilities Revenue Bonds, Series 2003, Series 2005, and Series 2006 – The bonds are used to provide student housing and related facilities as allowed by the bond covenants for the UNK campus. Operating revenues consist primarily of rentals, food service income, and student fees.

Pledges pertaining to these issues are disclosed in Note H.

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Condensed Statements of Net Assets		
Assets:		
Current assets	\$ 87,352	\$ 74,425
Non-current assets:		
Capital assets	191,983	179,549
Other non-current assets	<u>12,799</u>	<u>9,653</u>
Total assets	<u>292,134</u>	<u>263,627</u>
Liabilities:		
Current liabilities	15,935	18,328
Non-current liabilities	<u>195,803</u>	<u>168,569</u>
Total liabilities	<u>211,738</u>	<u>186,897</u>
Net assets:		
Invested in capital assets, net of related debt:	24,469	25,828
Restricted:		
Expendable:		
Plant construction	5,898	8,550
Debt service	42,459	35,399
Unrestricted	<u>7,570</u>	<u>6,953</u>
Total net assets	<u>\$ 80,396</u>	<u>\$ 76,730</u>

	<u>Year Ended</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Condensed Statements of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	\$ 70,055	\$ 64,450
Operating expenses:		
Depreciation	6,771	5,178
Other operating expenses	<u>54,583</u>	<u>50,683</u>
Operating income	8,701	8,589
Non-operating expense	<u>(5,035)</u>	<u>(544)</u>
Change in net assets	3,666	8,045
Net assets, beginning of year, as restated	<u>76,730</u>	<u>68,685</u>
Net assets, end of year	<u>\$ 80,396</u>	<u>\$ 76,730</u>

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(Thousands)

	<u>Year Ended</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Condensed Statements of Cash Flows		
Net cash flows from operating activities	\$ 13,163	\$ 7,945
Net cash flows from capital and related financing activities	(1,205)	(49,057)
Net cash flows from investing activities	<u>(16,443)</u>	<u>(3,867)</u>
Net change in cash and cash equivalents	(4,485)	(44,979)
Cash and cash equivalents, beginning of year	<u>66,501</u>	<u>111,480</u>
Cash and cash equivalents, end of year	<u>\$ 62,016</u>	<u>\$ 66,501</u>

P. UNIVERSITY OF NEBRASKA FOUNDATION

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

Although the University does not control the timing or amount of receipts from the Foundation, the resources that the Foundation holds and invests, or the income thereon, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation 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. Based on the Foundation's audited financial statements as of June 30, 2006 and 2005, the Foundation's net assets (including unrealized gains) totaled \$1,153,224 and \$1,018,798 for the years ended June 30, 2006 and 2005, respectively.

During the years ended June 30, 2006 and 2005, the Foundation contributed \$54 million and \$53 million, respectively, to the University for academic support, student assistance, faculty assistance, research, and museums and libraries. In addition, the Foundation provided capital gifts of \$32 million and \$24 million during 2006 and 2005, respectively, to the University. These contributions provided support for several projects, including the construction of the Research Center of Excellence Project (Durham Research Center) and the Memorial Stadium 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:

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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 non-profit 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 non-profit 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.

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.

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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.

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	Book Value 2006
INVESTMENTS STATED AT OTHER THAN FAIR VALUE:	
Certificates of deposit, savings and money funds	\$ 29,580
Limited partnerships	
Real estate	28,597
Real estate mortgage and contracts	23,865
Miscellaneous	2,956
Cash value of life insurance	3,544
Annuity contracts	209
	<u>88,751</u>
 TOTAL INVESTMENTS:	
Stated at fair value	1,015,115
Stated at other than fair value	<u>88,751</u>
	<u>\$ 1,103,866</u>

	Book Value 2005
INVESTMENTS STATED AT OTHER THAN FAIR VALUE:	
Certificates of deposit, savings and money funds	\$ 33,517
Limited partnerships	-
Real estate	24,026
Real estate mortgage and contracts	24,852
Miscellaneous	2,845
Cash value of life insurance	3,357
Annuity contracts	209
	<u>88,806</u>
 TOTAL INVESTMENTS:	
Stated at fair value	905,805
Stated at other than fair value	<u>88,806</u>
	<u>\$ 994,611</u>

THE UNIVERSITY OF NEBRASKA
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YEARS ENDED JUNE 30, 2006 AND 2005
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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 and subsequently entered into an extension for two additional years through December 31, 2007 at a rate of \$12 per month. The Foundation also renewed an agreement to lease office space in Kearney through October 31, 2008 at \$3 per month. The minimum rentals for leases with guaranteed terms for the five fiscal years after June 30, 2006, are as follows:

June 30, 2007	579
June 30, 2008	544
June 30, 2009	481
June 30, 2010	467
June 30, 2011	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 Foundation and LLC contributions to the plans for the years ending June 30, 2006 and 2005 were \$450 and \$427, respectively.

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.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

6. CONTINGENCIES AND COMMITMENTS

The Foundation is involved in several legal actions. The Foundation believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final 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:

	<u>2006</u>
Temporarily restricted - charitable trusts and annuities	\$ 30,146
Temporarily restricted - available for specific purposes	287,585
Temporarily restricted - use at discretion of Foundation Board	53,303
Permanently restricted - available for specific purposes	709,777
Permanently restricted - endowment	55,630
Permanently restricted - student loans	<u>10,838</u>
	<u>\$ 1,147,279</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 for the year-ended June 30, 2006 as follows:

	<u>2006</u>	<u>2005</u>
Gross amount due in:		
One year or less	\$ 26,417	\$ 31,705
One to five years	53,596	28,627
More than five years	<u>35,905</u>	<u>32,629</u>
	115,918	92,961
Less discount to present value	<u>18,584</u>	<u>12,618</u>
	97,334	80,343
Less allowance for doubtful accounts - 3%	<u>2,920</u>	<u>2,410</u>
	<u>\$ 94,414</u>	<u>\$ 77,933</u>

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The discount will be recognized as contribution income in years 2006 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, 2006 and 2005 are as follows:

	2006	2005
Property	\$ 489	\$ 489
Leasehold improvements	1,536	1,511
Aircraft	4,177	4,177
Automobiles	144	141
Furniture, equipment and software	<u>5,404</u>	<u>5,216</u>
	11,750	11,534
Less accumulated depreciation	<u>6,198</u>	<u>5,550</u>
Net property and equipment	<u>\$ 5,552</u>	<u>\$ 5,984</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. Non-marketable debt securities are valued based on estimated discounted future cash flows; non-marketable 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.

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R. SUBSEQUENT EVENTS

On August 15, 2006, the UNFC issued \$110,970 of Deferred Maintenance Bonds, Series 2006 to finance the construction of certain renewal and renovation projects at each of the four University campuses. Principal and interest payments will be paid from appropriations from the State of Nebraska and tuition revenues. The 2006 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2006 Bonds as they become due, the deficiency will be paid from certain defined cash funds or other funds of the Regents available for such purposes.

On November 1, 2006, the UNFC issued \$29,625 of Lease Rental Revenue Bonds, Series 2006 (UNMC Sorrell Center Project) to finance the construction of a multi-story education building to house the educational activities of the UNMC College of Medicine and provide campus-wide education support resources. UNMC has obtained pledges through the University of Nebraska Foundation, that when augmented by other funds UNMC has available, will be sufficient to make lease payments to pay UNFC for principal and interest. The Sorrell Center Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2006 Bonds as they become due, the deficiency will be paid from certain defined cash funds of the Regents available for such purposes.

On October 20, 2006, the Nebraska Supreme Court issued an opinion in the Roseland case related to employee benefits. The University is currently evaluating the effect of the case and is unable to estimate the amount of a potential liability, if any.

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THE UNIVERSITY OF NEBRASKA-LINCOLN
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS
JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 139,869	\$ 123,777
Cash and cash equivalents - restricted	86,617	99,147
Investments	4,046	3,364
Accounts receivable and unbilled charges, net	47,364	41,646
Loans to students, net	3,231	3,412
Due from other campuses	1,106	836
Other current assets	9,353	10,322
Total current assets	<u>291,586</u>	<u>282,504</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	7,153	1,543
Investments	169,854	177,044
Loans to students, net of current portion	11,031	11,351
Capital assets, net of accumulated depreciation	589,284	555,224
Other non-current assets	3,827	2,867
Total non-current assets	<u>781,149</u>	<u>748,029</u>
Total assets	<u>1,072,735</u>	<u>1,030,533</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	27,452	29,378
Accrued salaries, wages, and post-retirement benefits	19,635	17,175
Accrued compensated absences	4,984	4,314
Bond obligations payable	8,560	6,060
Capital lease obligations	2,174	2,157
Due to other campuses	-	73
Capital lease obligations due to other campuses	468	1,694
Deferred revenues and credits	51,556	46,094
Total current liabilities	<u>114,829</u>	<u>106,945</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	1,016	875
Accrued compensated absences, net of current portion	17,836	15,147
Bond obligations payable, net of current portion	215,040	215,880
Capital lease obligations, net of current portion	2,876	5,050
Capital lease obligations - UNFC, net of current portion	4,430	4,820
Deferred revenues and credits, net of current portion	2,276	2,110
Total non-current liabilities	<u>243,474</u>	<u>243,882</u>
Total liabilities	<u>358,303</u>	<u>350,827</u>
NET ASSETS:		
Invested in capital assets, net of related debt	339,808	360,250
Restricted for:		
Non-expendable:		
Permanent endowment	174,035	158,321
Expendable:		
Externally restricted funds	20,490	18,933
Loan funds	17,363	17,045
Plant construction	25,193	2,572
Debt service	33,795	30,711
Unrestricted	103,748	91,874
Total net assets	<u>\$ 714,432</u>	<u>\$ 679,706</u>

See independent auditors' report.

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THE UNIVERSITY OF NEBRASKA-LINCOLN
ADDITIONAL INFORMATION
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$33,933 and \$30,973 in 2006 and 2005, respectively)	\$ 101,663	\$ 99,677
Federal grants and contracts - restricted	178,451	190,845
State and local grants and contracts - restricted	5,601	5,543
Private grants and contracts - restricted	31,722	10,056
Sales and services of educational activities	42,493	36,342
Sales and services of auxiliary operations	93,224	83,681
Sales and services of auxiliary segments (net of scholarship allowances of \$4,841 and \$4,207 in 2006 and 2005, respectively)	40,152	36,070
Other operating revenues	<u>6,213</u>	<u>4,606</u>
Total operating revenues	<u>499,519</u>	<u>466,820</u>
OPERATING EXPENSES:		
Salaries and wages	316,047	298,202
Benefits	<u>88,090</u>	<u>79,735</u>
Total compensation and benefits	404,137	377,937
Supplies and materials	130,446	126,597
Contractual services	33,999	30,032
Repairs and maintenance	16,261	14,221
Utilities	20,156	17,755
Communications	8,215	7,572
Depreciation	32,250	31,712
Scholarships and fellowships	<u>96,272</u>	<u>88,270</u>
Total operating expenses	<u>741,736</u>	<u>694,096</u>
TRANSFERS:		
Intercampus reallocation	(1,978)	(3,780)
Other	<u>2,282</u>	<u>8,254</u>
Total transfers	<u>304</u>	<u>4,474</u>
OPERATING LOSS	<u>(241,913)</u>	<u>(222,802)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	221,569	203,699
Gifts	31,101	31,136
Investment income (net of investment management fees of \$1,850 and \$1,656 in 2006 and 2005, respectively)	36,066	18,718
Increase in capital lease obligation - UNFC	(4,603)	(2,390)
Increase in fair value of investments		3,329
Interest income on loans receivable	143	171
Capitalized interest on bond obligations	(10,269)	6,223
Interest expense on bond obligations	<u>1,625</u>	<u>(11,907)</u>
Net non-operating revenues	<u>275,632</u>	<u>248,979</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>33,719</u>	<u>26,177</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
State of Nebraska capital appropriations	1,136	1,703
Capital grants and gifts	1,948	1,191
U.S. Government advances	-	111
Private gifts and bequests for permanent endowments	2,050	884
Loss on disposal of capital assets	<u>(4,127)</u>	<u>(3,787)</u>
Net other revenues, expenses, gains, or losses	<u>1,007</u>	<u>102</u>
INCREASE IN NET ASSETS	<u>34,726</u>	<u>26,279</u>
NET ASSETS:		
Net assets, beginning of year	<u>679,706</u>	<u>653,427</u>
Net assets, end of year	<u>\$ 714,432</u>	<u>\$ 679,706</u>

See independent auditors' report.

THE UNIVERSITY OF NEBRASKA
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THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 212,524	\$ 200,285
Tuition and fees	101,407	98,390
Sales and services of auxiliary operations	96,262	89,504
Sales and services of auxiliary segments	39,680	36,315
Sales and services of educational activities	62,063	56,771
Other receipts	7,154	7,279
Student loans collected	3,481	3,441
Payments to employees	(398,177)	(375,482)
Payments to vendors	(231,719)	(213,917)
Scholarships paid to students	(96,272)	(88,270)
Student loans issued	(3,094)	(4,211)
Other payments	(163)	(314)
Transfers:		
Intercampus reallocation	(1,978)	(3,780)
Other	2,282	8,254
Net cash flows from operating activities	<u>(206,550)</u>	<u>(185,735)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	221,291	204,125
Private gifts and grants for operating use	27,599	31,136
Private gifts and bequests for endowment use	2,050	884
Net cash flows from non-capital financing activities	<u>250,940</u>	<u>236,145</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	26,925	-
Gifts	7,067	2,063
State of Nebraska capital appropriations	1,137	1,703
U.S. Government advances	-	111
Purchases of capital assets	(69,789)	(99,953)
Principal paid on bond obligations	(6,380)	(2,255)
Refunding of bond obligations	(18,885)	-
Interest paid on bond obligations	(10,675)	-
Payment of bond financial expense	(388)	(12,744)
Payments made on lease obligations	(2,563)	(4,436)
Net cash flows from capital and related financing activities	<u>(73,551)</u>	<u>(115,511)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	103,126	86,857
Purchases of investments	(101,222)	(118,398)
Interest on investments	36,286	18,373
Interest on loans receivable	143	171
Net cash flows from investing activities	<u>38,333</u>	<u>(12,997)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,172	(78,098)
CASH AND CASH EQUIVALENTS, beginning of year	<u>224,467</u>	<u>302,565</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 233,639</u>	<u>\$ 224,467</u>

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

THE UNIVERSITY OF NEBRASKA - LINCOLN
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 139,869	\$ 123,777
Cash and cash equivalents - restricted (current)	86,617	99,147
Cash and cash equivalents - restricted (non-current)	<u>7,153</u>	<u>1,543</u>
Cash and cash equivalents - end of year	<u>\$ 233,639</u>	<u>\$ 224,467</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (241,913)	\$ (222,802)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	32,250	31,712
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(7,785)	(1,529)
Loans to students	501	(692)
Other current assets	1,323	(932)
Accounts payable	(2,084)	2,698
Accrued salaries, wages, and post-retirement benefits	5,960	2,453
Deferred revenues and credits	<u>5,198</u>	<u>3,357</u>
Net cash flows from operating activities	<u>\$ (206,550)</u>	<u>\$ (185,735)</u>
NON-CASH TRANSACTIONS:		
Acquisition of capital assets through lease obligations	\$ 406	\$ 1,991
Increase (decrease) in fair value of investments	(4,603)	3,329

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS
JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,779	\$ 51,499
Cash and cash equivalents - restricted	93,638	86,278
Investments	905	881
Accounts receivable and unbilled charges, net	59,486	44,548
Loans to students, net	3,453	2,876
Due from other campuses	-	2,058
Other current assets	4,536	3,513
Total current assets	<u>195,797</u>	<u>191,653</u>
NON-CURRENT ASSETS:		
Investments	44,661	33,546
Investment in joint venture	193,982	163,084
Loans to students, net of current portion	8,352	9,501
Capital assets, net of accumulated depreciation	346,154	348,199
Other non-current assets	10,086	9,510
Total non-current assets	<u>603,235</u>	<u>563,840</u>
Total assets	<u>799,032</u>	<u>755,493</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	13,541	14,135
Accrued salaries, wages, and post-retirement benefits	8,576	7,920
Accrued compensated absences	8,360	8,080
Bond obligations payable	115	110
Capital lease obligations	878	1,040
Capital lease obligations - UNFC	283	234
Deferred revenues and credits	10,610	8,859
Health and other insurance claims	1,658	1,395
Due to other campuses	365	-
Total current liabilities	<u>44,386</u>	<u>41,773</u>
NON-CURRENT LIABILITIES:		
Accrued compensated absences, net of current portion	13,162	11,138
Bond obligations payable, net of current portion	5,095	5,210
Capital lease obligations, net of current portion	4,906	5,600
Capital lease obligations - UNFC, net of current portion	511	799
Deferred revenues and credits, net of current portion	-	450
Total non-current liabilities	<u>23,674</u>	<u>23,197</u>
Total liabilities	<u>68,060</u>	<u>64,970</u>
NET ASSETS:		
Invested in capital assets, net of related debt	334,601	335,122
Restricted for:		
Non-expendable:		
Permanent endowment	1,545	1,437
Expendable:		
Externally restricted funds	95,528	86,637
Loan funds	16,318	16,023
Plant construction	5,196	6,815
Debt service	338	344
Unrestricted	<u>277,446</u>	<u>244,145</u>
Total net assets	<u>\$ 730,972</u>	<u>\$ 690,523</u>

See independent auditors' report.

THE UNIVERSITY OF NEBRASKA

(A Component Unit of the State of Nebraska)

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER

ADDITIONAL INFORMATION

SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

(Thousands)

	2006	2005
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$4,752 and \$4,675 in 2006 and 2005, respectively)	\$ 26,737	\$ 24,188
Federal grants and contracts - restricted	60,325	58,519
State and local grants and contracts - restricted	16,428	17,322
Private grants and contracts - restricted	57,730	40,970
Sales and services of educational activities	3,656	3,504
Sales and services of health care entities	146,512	141,006
Sales and services of auxiliary operations	17,903	14,109
Sales and services of auxiliary segments	461	303
Other operating revenues	541	112
Total operating revenues	<u>330,293</u>	<u>300,033</u>
OPERATING EXPENSES:		
Salaries and wages	248,542	231,911
Benefits	56,937	53,842
Total compensation and benefits	305,479	285,753
Supplies and materials	45,599	41,280
Contractual services	42,272	39,615
Repairs and maintenance	18,240	24,490
Utilities	5,959	5,034
Communications	3,319	2,401
Depreciation	18,299	16,756
Scholarships and fellowships	7,726	7,018
Total operating expenses	<u>446,893</u>	<u>422,347</u>
TRANSFERS:		
Intercampus reallocation	(4,707)	(4,155)
Other	(649)	(414)
Total transfers	<u>(5,356)</u>	<u>(4,569)</u>
OPERATING LOSS	<u>(121,956)</u>	<u>(126,883)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	107,697	104,869
Gifts	14,309	14,085
Investment income (net of investment management fees of \$20 and \$18 in 2006 and 2005, respectively)	7,101	4,523
Increase in fair value of investments	(153)	1,581
Interest income on loans receivable	169	166
Interest expense on bond obligations	(233)	(235)
Capitalized interest on bond obligations	-	219
Equity in earnings of joint venture	43,898	18,218
Net non-operating revenues	<u>172,788</u>	<u>143,426</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>50,832</u>	<u>16,543</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	2,966	5,179
Capital grants and gifts	-	3,977
Capital grant to Nebraska Medical Center	(10,000)	-
U.S. Government advances	19	925
Additions to permanent endowments	100	-
Loss on disposal of capital assets	(3,468)	(379)
Net other revenues, expenses, gains, or losses	<u>(10,383)</u>	<u>9,702</u>
INCREASE IN NET ASSETS	40,449	26,245
NET ASSETS:		
Net assets, beginning of year	<u>690,523</u>	<u>664,278</u>
Net assets, end of year	<u>\$ 730,972</u>	<u>\$ 690,523</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 122,292	\$ 113,451
Tuition and fees	26,751	24,159
Sales and services of healthcare entities	135,718	143,206
Sales and services of auxiliary operations	15,719	11,269
Sales and services of auxiliary segments	446	287
Sales and services of educational activities	3,656	3,504
Other receipts	541	112
Student loans collected	3,463	3,064
Payments to employees	(273,959)	(247,592)
Payments to vendors	(129,719)	(138,964)
Scholarships paid to students	(7,726)	(7,018)
Student loans issued	(2,890)	(2,357)
Transfers:		
Intercampus reallocation	(4,707)	(4,155)
Other	(649)	(414)
Net cash flows from operating activities	<u>(111,064)</u>	<u>(101,448)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	107,697	104,869
Private gifts and grants for operating use	14,489	14,084
Net cash flows from non-capital financing activities	<u>122,186</u>	<u>118,953</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants and contracts	-	3,977
State of Nebraska capital appropriations	3,117	5,173
U.S. Government advances	19	925
Proceeds from the issuance of bonds	-	-
Purchases of capital assets	(21,247)	(30,387)
Principal paid on bond obligations	(110)	(110)
Interest paid on bond obligations	(233)	(234)
Payments made on lease obligations	(1,094)	(3,310)
Net cash flows from capital and related financing activities	<u>(19,548)</u>	<u>(23,966)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	-	429
Purchases of investments	(10,712)	(742)
Interest on investments	5,609	4,520
Interest on loans receivable	169	160
Distributions from joint venture	3,000	3,000
Net cash flows from investing activities	<u>(1,934)</u>	<u>7,367</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,360)	906
CASH AND CASH EQUIVALENTS, beginning of year	<u>137,777</u>	<u>136,871</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 127,417</u>	<u>\$ 137,777</u>

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

THE UNIVERSITY OF NEBRASKA MEDICAL CENTER
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 33,779	\$ 51,499
Cash and cash equivalents - restricted (current)	93,638	86,278
Cash and cash equivalents (Non-current)	-	-
Cash and cash equivalents - restricted (current)	<u>-</u>	<u>-</u>
Cash and cash equivalents - end of year	<u>\$ 127,417</u>	<u>\$ 137,777</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (121,956)	\$ (126,883)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation expense	18,299	16,756
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(14,910)	(2,580)
Loans to students	573	706
Other current assets	(794)	(151)
Accounts payable	2,568	3,384
Accrued salaries, wages, and post-retirement benefits	3,143	7,635
Deferred revenues and credits	1,750	(315)
Health and other insurance claims	<u>263</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ (111,064)</u>	<u>\$ (101,448)</u>
NON-CASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ (153)	\$ 1,581
Acquisition of capital assets through lease obligations	238	9,755

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS
JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,205	\$ 16,101
Cash and cash equivalents - restricted	8,276	9,657
Accounts receivable and unbilled charges, net	6,429	6,496
Loans to students, net	1,463	1,575
Other current assets	1,447	1,512
Total current assets	<u>36,820</u>	<u>35,341</u>
NON-CURRENT ASSETS:		
Investments	8,588	7,843
Loans to students, net of current portion	4,993	5,326
Capital assets, net of accumulated depreciation	114,703	114,280
Other non-current assets	3,280	3,344
Total non-current assets	<u>131,564</u>	<u>130,793</u>
Total assets	<u>168,384</u>	<u>166,134</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	2,762	3,240
Accrued salaries, wages, and post-retirement benefits	6,833	5,942
Accrued compensated absences	804	677
Bond obligations payable	810	795
Due to other campuses	25	92
Deferred revenues and credits	5,405	5,562
Total current liabilities	<u>16,639</u>	<u>16,308</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	394	376
Accrued compensated absences, net of current portion	3,117	2,905
Bond obligations payable, net of current portion	18,345	19,155
Deferred revenues and credits, net of current portion	3,060	3,100
Total non-current liabilities	<u>24,916</u>	<u>25,536</u>
Total liabilities	<u>41,555</u>	<u>41,844</u>
NET ASSETS:		
Invested in capital assets, net of related debt	95,792	94,598
Restricted for:		
Non-expendable:		
Permanent endowment	756	751
Expendable:		
Externally restricted funds	1,910	1,929
Loan funds	7,695	7,778
Plant construction	4,209	3,561
Debt service	3,940	3,389
Unrestricted	12,527	12,284
Total net assets	<u>\$ 126,829</u>	<u>\$ 124,290</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$12,120 and \$12,017 in 2006 and 2005, respectively)	\$ 48,500	\$ 45,714
Federal grants and contracts - restricted	13,696	14,360
State and local grants and contracts - restricted	4,009	3,512
Private grants and contracts - restricted	1,759	3,200
Sales and services of educational activities	8,026	4,562
Sales and services of auxiliary operations	5,773	6,045
Sales and services of auxiliary segments (net of scholarship allowances of \$279 and \$285 in 2006 and 2005, respectively)	11,673	11,182
Other operating revenues	431	364
Total operating revenues	<u>93,867</u>	<u>88,939</u>
OPERATING EXPENSES:		
Salaries and wages	79,824	75,985
Benefits	20,755	18,820
Total compensation and benefits	100,579	94,805
Supplies and materials	24,020	24,245
Contractual services	5,353	4,846
Repairs and maintenance	3,086	3,585
Utilities	3,166	2,771
Communications	1,345	1,335
Depreciation	4,977	5,252
Scholarships and fellowships	11,616	10,672
Total operating expenses	<u>154,142</u>	<u>147,511</u>
TRANSFERS:		
Intercampus reallocation	(1,856)	(3,067)
Other	4	(38)
Total transfers	<u>(1,852)</u>	<u>(3,105)</u>
OPERATING LOSS	<u>(62,127)</u>	<u>(61,677)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	53,275	52,048
Gifts	11,024	6,257
Investment income (net of investment management fees of \$12 and \$12 in 2006 and 2005, respectively)	1,603	1,348
Increase (decrease) in fair value of investments	(121)	(418)
Interest income on loans receivable	79	95
Interest expense on bond obligations	(838)	(850)
Net non-operating revenues	<u>65,022</u>	<u>58,480</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>2,895</u>	<u>(3,197)</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:		
State of Nebraska capital appropriations	307	-
US Government advances	112	311
Capital gifts and grants	8	-
Loss on disposal of capital assets	(783)	(15)
Total other revenues, expenses, gains or losses	<u>(356)</u>	<u>296</u>
INCREASE (DECREASE) IN NET ASSETS	2,539	(2,901)
NET ASSETS:		
Net assets, beginning of year	<u>124,290</u>	<u>127,191</u>
Net assets, end of year	<u>\$126,829</u>	<u>\$124,290</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 19,284	\$ 21,687
Tuition and fees	48,264	45,583
Sales and services of auxiliary operations	6,869	6,437
Sales and services of auxiliary segments	11,673	11,182
Sales and services of educational activities	7,841	4,463
Other receipts	472	352
Student loans collected	1,853	1,900
Payments to employees	(99,331)	(94,241)
Payments to vendors	(37,725)	(37,787)
Scholarships paid to students	(11,616)	(10,672)
Student loans issued	(1,408)	(2,137)
Transfers:		
Intercampus reallocation	(1,856)	(3,067)
Other	4	(38)
Net cash flows from operating activities	<u>(55,676)</u>	<u>(56,338)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	53,275	52,013
Private gifts and grants for operating use	9,994	6,425
Net cash flows from non-capital financing activities	<u>63,269</u>	<u>58,438</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Gifts	8	-
State of Nebraska capital appropriations	428	-
U.S. Government advances	112	311
Purchases of capital assets	(5,592)	(1,353)
Principal paid on bond obligations	(795)	(785)
Interest paid on bond obligations	(841)	(853)
Net cash flows from capital and related financing activities	<u>(6,680)</u>	<u>(2,680)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	6,612	7,269
Purchases of investments	(7,479)	(8,242)
Interest on investments	1,598	1,308
Interest on loans receivable	79	95
Net cash flows from investing activities	<u>810</u>	<u>430</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,723	(150)
CASH AND CASH EQUIVALENTS, beginning of year	<u>25,758</u>	<u>25,908</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 27,481</u>	<u>\$ 25,758</u>

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

THE UNIVERSITY OF NEBRASKA AT OMAHA
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 19,205	\$ 16,101
Cash and cash equivalents - restricted (current)	<u>8,276</u>	<u>9,657</u>
Cash and cash equivalents - end of year	<u>\$ 27,481</u>	<u>\$ 25,758</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (62,127)	\$ (61,677)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	4,977	5,252
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	981	(341)
Loans to students	445	(237)
Other current assets	129	(346)
Accounts payable	(1,134)	(409)
Accrued salaries, wages, and post-retirement benefits	1,248	564
Deferred revenues and credits	<u>(195)</u>	<u>856</u>
Net cash flows from operating activities	<u>\$ (55,676)</u>	<u>\$ (56,338)</u>
NON-CASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ (121)	\$ (418)

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS
JUNE 30, 2006 AND 2005
(Thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,913	\$ 10,967
Cash and cash equivalents - restricted	12,151	6,852
Investments	19,817	3,074
Accounts receivable and unbilled charges, net	1,834	1,592
Loans to students, net	442	526
Due from other campuses	6	186
Other current assets	360	308
Total current assets	<u>47,523</u>	<u>23,505</u>
NON-CURRENT ASSETS:		
Investments	3,006	1,046
Loans to students, net of current portion	2,144	2,184
Capital assets, net of accumulated depreciation	68,959	65,292
Other non-current assets	666	205
Total non-current assets	<u>74,775</u>	<u>68,727</u>
Total assets	<u>122,298</u>	<u>92,232</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	988	1,260
Accrued salaries, wages, and post-retirement benefits	3,844	3,751
Accrued compensated absences	277	261
Bond obligations payable	730	1,150
Capital lease obligations	79	82
Deferred revenues and credits	1,314	1,153
Total current liabilities	<u>7,232</u>	<u>7,657</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	164	198
Accrued compensated absences, net of current portion	1,288	1,239
Bond obligations payable, net of current portion	29,800	7,745
Capital lease obligations, net of current portion	704	731
Deferred revenues and credits	1,360	804
Total non-current liabilities	<u>33,316</u>	<u>10,717</u>
Total liabilities	<u>40,548</u>	<u>18,374</u>
NET ASSETS:		
Invested in capital assets, net of related debt	56,208	54,929
Restricted for:		
Non-expendable:		
Permanent endowment	66	66
Expendable:		
Externally restricted funds	1,086	1,038
Loan funds	2,914	2,937
Plant construction	1,062	1,149
Debt service	13,290	8,828
Unrestricted	7,124	4,911
Total net assets	<u>\$ 81,750</u>	<u>\$ 73,858</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$6,378 and \$6,184 in 2006 and 2005, respectively)	\$ 18,381	\$ 17,408
Federal grants and contracts - restricted	6,002	5,969
State and local grants and contracts - restricted	1,686	1,642
Private grants and contracts - restricted	567	479
Sales and services of educational activities	4,012	3,394
Sales and services of auxiliary operations	3,176	2,853
Sales and services of auxiliary segments (net of scholarship allowances of \$1,761 and \$1,733 in 2006 and 2005, respectively)	9,124	8,906
Other operating revenues	<u>178</u>	<u>183</u>
Total operating revenues	<u>43,126</u>	<u>40,834</u>
OPERATING EXPENSES:		
Salaries and wages	37,037	35,200
Benefits	<u>10,390</u>	<u>9,739</u>
Total compensation and benefits	47,427	44,939
Supplies and materials	11,885	12,923
Contractual services	1,233	1,327
Repairs and maintenance	1,706	2,094
Utilities	2,751	2,184
Communications	837	631
Depreciation	3,150	3,057
Scholarships and fellowships	<u>4,404</u>	<u>4,381</u>
Total operating expenses	<u>73,393</u>	<u>71,536</u>
TRANSFERS:		
Intercampus reallocation	(859)	(685)
Other	<u>200</u>	<u>1,367</u>
Total transfers	<u>(659)</u>	<u>682</u>
OPERATING LOSS	<u>(30,926)</u>	<u>(30,020)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	31,339	30,134
Gifts	1,485	1,358
Investment income (net of investment management fees of \$12 and \$7 in 2006 and 2005, respectively)	1,510	677
Increase (decrease) in fair value of investments	(96)	1
Interest income on loans receivable	29	33
Capitalized interest on bond obligations	29	-
Interest expense on bond obligations	<u>(807)</u>	<u>(447)</u>
Net non-operating revenues	<u>33,489</u>	<u>31,756</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>2,563</u>	<u>1,736</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	24	594
Capital grants and gifts	5,977	4,065
U.S. Government advances	40	47
Additions to permanent endowments	-	28
Loss on disposal of capital assets	<u>(712)</u>	<u>(157)</u>
Net other revenues, expenses, gains, or losses	<u>5,329</u>	<u>4,577</u>
INCREASE IN NET ASSETS	7,892	6,313
NET ASSETS:		
Net assets, beginning of year	<u>73,858</u>	<u>67,545</u>
Net assets, end of year	<u>\$ 81,750</u>	<u>\$ 73,858</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 8,206	\$ 7,979
Tuition and fees	18,436	17,397
Sales and services of auxiliary operations	3,161	2,749
Sales and services of auxiliary segments	9,103	8,865
Sales and services of educational activities	4,072	3,387
Other receipts	178	183
Student loans collected	535	562
Payments to employees	(47,302)	(44,634)
Payments to vendors	(18,509)	(19,413)
Scholarships paid to students	(4,404)	(4,381)
Student loans issued	(412)	(771)
Transfers:		
Intercampus reallocation	(859)	(685)
Other	200	1,367
Net cash flows from operating activities	<u>(27,595)</u>	<u>(27,395)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	31,338	30,134
Private gifts and grants for operating use	1,592	1,319
Private gifts and bequests for endowment use	-	28
Net cash flows from non-capital financing activities	<u>32,930</u>	<u>31,481</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	28,710	-
Refunding of bond obligations	(5,895)	-
Grants and contracts	25	25
State of Nebraska capital appropriations	32	595
U.S. Government advances	40	47
Purchases of capital assets	(1,551)	(2,101)
Principal paid on bond obligations	(1,180)	(1,320)
Interest paid on bond obligations	(768)	(439)
Payment of bond financial expense	(41)	-
Payments made on lease obligations	(90)	(84)
Net cash flows from capital and related financing activities	<u>19,282</u>	<u>(3,277)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	7,511	-
Purchases of investments	(26,067)	(3,998)
Interest on investments	1,155	634
Interest on loans receivable	29	33
Net cash flows from investing activities	<u>(17,372)</u>	<u>(3,331)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,245	(2,522)
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,819</u>	<u>20,341</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 25,064</u>	<u>\$ 17,819</u>

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

THE UNIVERSITY OF NEBRASKA AT KEARNEY
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 12,913	\$ 10,967
Cash and cash equivalents - restricted (current)	<u>12,151</u>	<u>6,852</u>
Cash and cash equivalents - end of year	<u>25,064</u>	<u>17,819</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	(30,926)	(30,020)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	3,150	3,057
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(136)	(349)
Loans to students	124	(209)
Other current assets	(30)	22
Accounts payable	(62)	(276)
Accrued salaries, wages, and post-retirement benefits	124	305
Deferred revenues and credits	<u>161</u>	<u>75</u>
Net cash flows from operating activities	<u>\$ (27,595)</u>	<u>\$ (27,395)</u>
NON-CASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ (96)	\$ 1
Capital grants and gifts	6,048	877
Acquisition of assets through lease obligations	60	779

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS
JUNE 30, 2006 and 2005
(Thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,146	\$ 14,716
Cash and cash equivalents - restricted	3,551	2,867
Investments	50,767	31,577
Accounts receivable and unbilled charges, net	<u>1,117</u>	<u>1,121</u>
Total current assets	<u>71,581</u>	<u>50,281</u>
NON-CURRENT ASSETS:		
Investments	30,352	28,733
Capital assets, net of accumulated depreciation	<u>3,817</u>	<u>3,974</u>
Total non-current assets	<u>34,169</u>	<u>32,707</u>
Total assets	<u>105,750</u>	<u>82,988</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	592	515
Accrued salaries, wages, and post-retirement benefits	106	101
Accrued compensated absences	184	156
Capital lease obligations	256	403
Due to other campuses	425	460
Deferred revenues and credits	66	73
Health and other insurance claims	<u>7,614</u>	<u>9,160</u>
Total current liabilities	<u>9,243</u>	<u>10,868</u>
NON-CURRENT LIABILITIES:		
Accrued salaries, wages, and post-retirement benefits, net of current portion	-	13
Accrued compensated absences, net of current portion	770	639
Capital lease obligations, net of current portion	<u>2,335</u>	<u>2,197</u>
Total non-current liabilities	<u>3,105</u>	<u>2,849</u>
Total liabilities	<u>12,348</u>	<u>13,717</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,220	1,368
Restricted for:		
Non-expendable:		
Permanent endowment	23,974	22,366
Expendable:		
Externally restricted funds	3,368	2,463
Plant construction	50	45
Unrestricted	<u>64,790</u>	<u>43,029</u>
Total net assets	<u>\$ 93,402</u>	<u>\$ 69,271</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
OPERATING REVENUES:		
Federal grants and contracts - restricted	\$ 1,630	\$ 1,910
Private grants and contracts - restricted	134	117
Sales and services of auxiliary operations	211	164
Other operating revenues	<u>21,401</u>	<u>6,500</u>
Total operating revenues	<u>23,376</u>	<u>8,691</u>
OPERATING EXPENSES:		
Salaries and wages	4,999	4,774
Benefits	<u>990</u>	<u>932</u>
Total compensation and benefits	5,989	5,706
Supplies and materials	6,755	197
Contractual services	3,183	2,253
Repairs and maintenance	836	1,164
Utilities	64	68
Communications	128	120
Depreciation	1,035	806
Scholarships and fellowships	<u>816</u>	<u>742</u>
Total operating expenses	<u>18,806</u>	<u>11,056</u>
TRANSFERS:		
Intercampus reallocation	1,070	3,457
Other	<u>(50)</u>	<u>(55)</u>
Total transfers	<u>1,020</u>	<u>3,402</u>
OPERATING INCOME	<u>5,590</u>	<u>1,037</u>
NON-OPERATING REVENUES (EXPENSES)		
State of Nebraska non-capital appropriations	15,390	8,183
Gifts	544	253
Investment income	3,530	1,649
Decrease in fair value of investments	(1,075)	(42)
Interest expense on bond obligations	<u>(130)</u>	<u>(153)</u>
Net non-operating revenues	<u>18,259</u>	<u>9,890</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>23,849</u>	<u>10,927</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
Private gifts and bequests for permanent endowments	290	315
Loss on disposal of capital assets	<u>(8)</u>	<u>-</u>
Net other revenues, expenses, gains, or losses	<u>282</u>	<u>315</u>
INCREASE IN NET ASSETS	24,131	11,242
NET ASSETS:		
Net assets, beginning of year	<u>69,271</u>	<u>58,029</u>
Net assets, end of year	<u>\$ 93,402</u>	<u>\$ 69,271</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	\$ 1,870	\$ 1,882
Sales and services of auxiliary operations	337	103
Other receipts	21,269	6,744
Payments to employees	(5,837)	(5,606)
Payments to vendors	(12,470)	(3,605)
Scholarships paid to students	(816)	(741)
Transfers:		
Intercampus reallocation	1,070	3,457
Other	(50)	(55)
Net cash flows from operating activities	<u>5,373</u>	<u>2,179</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	15,390	8,183
Private gifts and grants for operating use	584	102
Private gifts and bequests for endowment use	291	315
Net cash flows from non-capital financing activities	<u>16,265</u>	<u>8,600</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants and contracts	-	99
Purchases of capital assets	(293)	(443)
Interest paid on bond obligations	(131)	(153)
Payments made on lease obligations	(603)	(804)
Net cash flows from capital and related financing activities	<u>(1,027)</u>	<u>(1,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	14,614	14,866
Purchases of investments	3,388	(20,983)
Interest on investments	(36,499)	1,649
Net cash flows from investing activities	<u>(18,497)</u>	<u>(4,468)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,114	5,010
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,583</u>	<u>12,573</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 19,697</u>	<u>\$ 17,583</u>

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

THE UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current)	\$ 16,146	\$ 14,716
Cash and cash equivalents - restricted (current)	<u>3,551</u>	<u>2,867</u>
Cash and cash equivalents - end of year	<u>\$ 19,697</u>	<u>\$ 17,583</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS PROVIDED BY (FROM) OPERATING ACTIVITIES:		
Operating income	\$ 5,590	\$ 1,037
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation expense:	1,035	806
Changes in assets and liabilities:		
Accounts receivable	108	(322)
Other current assets	-	-
Accounts payable and unbilled charges, net	42	196
Accrued salaries, wages, and post-retirement benefits	151	101
Deferred revenues and credits	(7)	30
Health and other insurance claims	<u>(1,546)</u>	<u>331</u>
Net cash flows from operating activities	<u>\$ 5,373</u>	<u>\$ 2,179</u>
NON-CASH TRANSACTIONS:		
Acquisition of assets through capital leases	\$ 594	\$ 1
Decrease in fair value of investments	(1,075)	(42)

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
SCHEDULES OF NET ASSETS (DEFICIT)
JUNE 30, 2006 AND 2005
(Thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents - restricted	\$ 23,736	\$ 21,468
Investments	10,006	9,615
Accounts receivable and unbilled charges, net	392	312
Capital lease obligation receivable due from other campuses	751	307
Total current assets	<u>34,885</u>	<u>31,702</u>
NON-CURRENT ASSETS:		
Investments	14,385	16,111
Capital lease obligation receivable due from other campuses	4,941	5,619
Other non-current assets	310	350
Total non-current assets	<u>19,636</u>	<u>22,080</u>
Total assets	<u>54,521</u>	<u>53,782</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	1,915	2,214
Bond obligations payable	12,190	16,765
Due to other campuses	297	835
Total current liabilities	<u>14,402</u>	<u>19,814</u>
NON-CURRENT LIABILITIES:		
Bond obligations payable, net of current portion	83,535	95,725
Deferred revenues and credits, net of current portion	1,505	1,750
Total non-current liabilities	<u>85,040</u>	<u>97,475</u>
Total liabilities	<u>99,442</u>	<u>117,289</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	(86,611)	(102,149)
Restricted for:		
Expendable:		
Plant construction	-	40
Debt service	41,690	38,602
Total net assets (deficit)	<u>\$ (44,921)</u>	<u>\$ (63,507)</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
SCHEDULES OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
OPERATING EXPENSES:		
Repairs and maintenance	\$ 363	\$ 355
Total operating expenses	<u>363</u>	<u>355</u>
TRANSFERS:		
Intercampus reallocation	8,330	8,230
Other	<u>(1,787)</u>	<u>(9,114)</u>
Total transfers	<u>6,543</u>	<u>(884)</u>
OPERATING INCOME (LOSS)	6,180	(1,239)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,899	921
Increase (decrease) in fair value of investments	(228)	204
Increase in lease obligation	-	2,390
Interest expense on bond obligations	<u>(4,741)</u>	<u>(5,263)</u>
Net non-operating expenses	<u>(3,070)</u>	<u>(1,748)</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>3,110</u>	<u>(2,987)</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		
State of Nebraska capital appropriations	5,500	5,500
Capital grants and gifts	<u>9,976</u>	<u>10,517</u>
Net other revenues, expenses, gains, or losses	<u>15,476</u>	<u>16,017</u>
INCREASE IN NET ASSETS (DEFICIT)	18,586	13,030
NET ASSETS (DEFICIT):		
Net assets (deficit), beginning of year	<u>(63,507)</u>	<u>(76,537)</u>
Net assets (deficit), end of year	<u>\$ (44,921)</u>	<u>\$ (63,507)</u>

See independent auditors' report.

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

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION
ADDITIONAL INFORMATION
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to vendors	\$ (639)	\$ (1,578)
Transfers:		
Intercampus reallocation	8,330	8,230
Other	<u>(1,787)</u>	<u>(9,114)</u>
Net cash flows from operating activities	<u>5,904</u>	<u>(2,462)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants and contracts	9,976	10,516
State capital appropriations	5,500	5,500
Principal paid on bond obligations	(16,765)	(9,890)
Interest paid on bond obligations	<u>(5,276)</u>	<u>(5,664)</u>
Net cash flows from capital and related financing activities	<u>(6,565)</u>	<u>462</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	13,583	6,803
Purchases of investments	(12,477)	(15,961)
Interest on investments	<u>1,823</u>	<u>836</u>
Net cash flows from investing activities	<u>2,929</u>	<u>(8,322)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,268	(10,322)
CASH AND CASH EQUIVALENTS, beginning of year	<u>21,468</u>	<u>31,790</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 23,736</u>	<u>\$ 21,468</u>
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET ASSETS:		
Cash and cash equivalents (current) - end of year	<u>\$ 23,736</u>	<u>\$ 21,468</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ 6,180	\$ (1,239)
Adjustments to reconcile operating income (loss) to net cash flows used in operating activities:		
Changes in assets and liabilities:		
Other current assets	561	433
Accounts payable	<u>(837)</u>	<u>(1,656)</u>
Net cash flows from operating activities	<u>\$ 5,904</u>	<u>\$ (2,462)</u>
NON-CASH TRANSACTIONS:		
Increase (decrease) in fair value of investments	\$ (228)	\$ 204

See independent auditors' report.



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**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the business-type activities and discretely presented component unit of the University of Nebraska (the University) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 17, 2006. Our report includes a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the University of Nebraska Foundation were not audited in accordance with *Government Auditing Standards*.

Our consideration of internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph.

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 reportable 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 caused by error or fraud 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the University in a separate letter dated November 17, 2006.

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.

KPMG LLP

Lincoln, Nebraska
November 17, 2006