The University of Nebraska

Basic Financial Statements and Additional Information
for the Years Ended June 30, 2017 and 2016
and Independent Auditors' Reports

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Issued on December 12, 2017

THE UNIVERSITY OF NEBRASKA

TABLE OF CONTENTS

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group under the Master Trust Indenture. The Blended Component Units and the activity relating to the Members of the Obligated Group under the Master Trust Indenture represent 22 percent, 4 percent, and 12 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2017, and 22 percent, 4 percent, and 12 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2016. Those statements were audited by other auditors, whose reports have been furnished to us, along with the Foundation report, which appears herein, and our opinion, insofar as it relates to the amounts included for the Foundation, the Blended Component Units, and the activity relating to the Members of the Obligated Group under the Master Trust Indenture, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Nebraska, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 5 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Lincoln, Nebraska
December 11, 2017

Mark Avery, CPA
Audit Manager

KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-1493

Independent Auditors' Report

The Board of Directors
University of Nebraska Foundation:

We have audited the accompanying consolidated financial statements of the University of Nebraska Foundation (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Nebraska Foundation as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Lincoln, Nebraska
September 29, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016 (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 years ended June 30, 2017 and 2016. This analysis has been prepared by management of the University of Nebraska and it is intended to be read with the financial statements and related footnotes that follow this section.

The University is a comprehensive public institution of higher education, research, and public service. It was founded in Lincoln, Nebraska on February 15, 1869. The University became a multi-campus institution in 1968 by an act of the Nebraska Legislature that provided for the addition of the University of Nebraska at Omaha to the University system (formerly the municipal University of Omaha) and, at the same time, designated the University of Nebraska-Lincoln and University of Nebraska Medical Center as separate campuses. In 1991, the former Kearney State College became the fourth campus as the University of Nebraska at Kearney.

The University's four campuses provide a diversity of offerings. The University of Nebraska-Lincoln (UNL) offers a wide range of undergraduate majors and has primary responsibility for graduate education, particularly at the doctoral level, and in the non-medical professions. UNL also includes the Institute of Agriculture and Natural Resources, which operates research extension centers across the State of Nebraska (the State), as well as offering major educational and research programs on campus. The University of Nebraska Medical Center (UNMC) features undergraduate, graduate, and professional degree programs that prepare students for a wide variety of careers in health sciences. The University of Nebraska at Omaha (UNO) is a metropolitan university located in the heart of Nebraska's largest city offering a broad range of undergraduate programs, as well as doctoral programs in criminal justice and public administration. The University of Nebraska at Kearney (UNK) is a mid-sized, residential campus with a commitment to excellence in undergraduate education. UNK offers undergraduate degrees in the arts and sciences, education, and business and technology, with a wide range of majors.

The financial statements for the University of Nebraska include five blended entities, those being the University of Nebraska Facilities Corporation (UNFC), the UNMC Science Research Fund, the University Dental Associates, the Nebraska Utility Corporation, and the University Technology Development Corporation. Additional information regarding these entities is described in the footnotes to the financial statements.

In accordance with the guidance of Governmental Accounting Standards Board (GASB) Statement No. 39 and GASB Statement No. 61, the University of Nebraska Foundation's (the Foundation) financial statements are discretely presented with the University's financial statements. Management's discussion and analysis relates only to the University and does not include any overview of the financial position and activities of the Foundation. References to the Foundation within the analysis relate only to specific transactions with the University.

(Continued)

(Columnar Amounts in Thousands)

Student Enrollment – Headcount

Campus	Fall Semester of Fiscal Year				
	2013	**2014**	**2015**	**2016**	**2017**
UNL	24,207	24,445	25,006	25,260	25,897
UNMC	3,655	3,681	3,696	3,789	3,862
UNO	14,786	15,227	15,227	15,526	15,627
UNK	7,199	7,052	6,902	6,747	6,788
Total	49,847	50,405	50,831	51,322	52,174

The fall semester (fiscal 2017) headcount enrollment was 52,174 students on the four campuses. This represents an increase of 852 compared to fiscal 2016, a 2% increase for the year. The largest increase within the underlying demographics is 651 additional undergraduate students at UNL (an increase of 3%), while graduate/professional students increased by 212 university-wide. Increasing enrollment is a strategic priority of the University and all campuses have devoted greater efforts to recruit both in-state and out-of-state students through such activities as improvement of student residences and facilities. The number of students enrolled in graduate and professional programs was 12,872, representing 25% of the student body, an important part of the University's commitment to its increasing prominence as a major research institution.

Financial and Operating Highlights

- ***Growth in Net Position.*** Overall total net position of the University grew by $216 million or 6% and is attributable to several factors. Invested in capital assets increased by $212 million, $86 million of which was funded by bond proceeds (net of refunding). Capital gifts of $98 million along with capital appropriations of $32 million accounted for the remaining funding. The fair value of permanent endowments increased $17 million and other restricted funds increased $23 million. Offsetting these increases was a $32 million decrease in expendable balances for plant construction, a function of timing of payments and completion of construction projects. Unrestricted net position also decreased by $6 million due to increased compensation and benefits costs and other operating expenses. Unrestricted net position remains strong at $745 million.

- ***New Capital Construction.*** Investments in capital projects followed University priorities, with many of these projects coming courtesy of private support. The following endeavors align behind the educational, research, and public service missions and make the University more competitive in continuing to attract high caliber students and faculty.
    - A major capital construction project at UNMC continued with the receipt of $50 million in donations to finance portions of the Fred and Pamela Buffett Cancer Center that is under construction in partnership with Nebraska Medicine.

- At UNO, construction commenced for the Strauss Performing Arts Center addition and renovation at a cost of $18 million. The renovation is needed to update the existing facility to meet current ADA, fire and life safety codes as well as addressing needed rehabilitation of interior spaces and upgrade old systems, furnishings and finishes. The renovation is financed through building renewal bonds, University funds and donor funds. The estimated completion for the renovation is FY 2019.

- At UNL, construction is almost completed on Howard L. Hawks Hall, the new College of Business building, slated to open in August 2017. In addition, the Willa Cather Dining Complex opened in June 2017.

- ***Indebtedness.*** Overall, bonded indebtedness increased in 2017 by about $39 million on a base of $874 million at June 30, 2016, the result of five new issues net of maturities/calls:

  Three issues were marketed by the Master Trust Indenture (MTI):

  - $66,760 of UNL Student Fee and Facilities bonds to advance refund $22,430 of Series 2008A Bonds and $46,075 of Series 2009A Bonds.
  - $37,280 of UNO Student Facilities bonds to advance refund $37,455 of Series 2008 Bonds.
  - $12,690 of UNK Revenue bonds to construct and furnish the new University Village housing facilities.

  Two new issues were marketed by UNFC:

  - $59,010 of UNMC Global Center Project Bonds to construct and furnish the Davis Global Center facility.
  - $18,520 of UNL Health Center and College of Nursing Projects Bonds to construct and furnish a new UNL Student Health Center and UNMC College of Nursing building and refund $1,880 of UNL Library Storage Series 2004 Bonds.

  Financial performance in the operations financed by MTI bonds (unions, student residences, recreation facilities, and parking) led to strong debt coverage ratios of 1.72 times versus a required 1.15. As the bond covenants state that defined excess funds must stay within the bonded portion of the enterprise, strong performance also allows MTI members to create reserves that allow measured, planned modernizations of facilities and equity infusion into projects without incurring additional incremental borrowings that would otherwise be required.

- ***State appropriations and tuition.*** The Nebraska Legislature appropriated a 3% increase in state support of University operations for fiscal 2017 and 2016 compared to an increase of 4% for 2015. Tuition increased 2.5% and 1.75% in 2017 and 2016, respectively, compared to flat tuition in fiscal 2015. This support, along with internal reallocations, permitted the University to provide a 3% increase in the salary pool for faculty and staff and to pay negotiated salary increases for UNO and UNK collective bargaining units. The University will continue to work with the State with the hope of further increasing investment, which will be deployed by management strategically while at the same time using such funding to keep college affordable.

(Continued)

- ***Federal Grants and Contracts.*** Revenues from Federal grants and contracts increased by 8% in 2017 compared to a 1% increase in both 2016 and 2015. Revenues from Federal sources support the research and discovery efforts of the University and provide financial aid to students.

- ***Capital grants and gifts.*** Capital grants and gifts continue to be an important source of funding for facilities at the University. Capital grants and gifts totaled $98 million in 2017 compared to $113 million in 2016, and $86 million in 2015. The largest of the gifts in 2017 were from the Foundation to repay UNFC bond obligations for several bonded projects and to continue construction of the UNMC Cancer Center project.

Using the Financial Statements

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

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

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

Capital assets are presented net of accumulated depreciation.

Net position is divided into three parts:

- Net investment in capital assets: The University's total investment in capital assets, net of accumulated depreciation and reduced by outstanding bond obligations incurred to acquire, construct, or improve those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included.

- Restricted:
  - Expendable: A fund externally restricted by creditors, grantors, or donors and includes grant and research funds, student loan programs, funds for plant construction, and debt service on bond obligations.
  - Non-expendable: Permanent endowments.

- Unrestricted: Comprised of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

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.

(Columnar Amounts in Thousands)

Condensed Financial Statements and Analysis

Condensed Statements of Net Position

	June 30, 2017	June 30, 2016	June 30, 2015
Assets and Deferred Outflows			
Current assets	$ 1,314,550	$ 1,305,002	$ 1,321,167
Capital assets, net of accumulated depreciation	2,768,094	2,588,806	2,308,711
Other non-current assets	1,050,673	991,742	950,601
Total assets	5,133,317	4,885,550	4,580,479
Deferred Outflows of Resources	16,681	7,630	6,822
Liabilities, Deferred Inflows, and Net Position			
Current liabilities	452,620	424,170	397,673
Non-current liabilities	891,047	884,006	818,732
Total liabilities	1,343,667	1,308,176	1,216,405
Deferred Inflows of Resources	19,486	14,523	16,780
Net position:			
Net investment in capital assets	2,165,096	1,953,065	1,683,616
Restricted for:			
Nonexpendable:			
Permanent endowment	225,334	207,481	221,048
Expendable:			
Externally restricted funds	251,380	227,970	197,616
Loan funds	43,439	43,110	44,916
Plant construction	211,566	243,917	312,047
Debt service	145,500	144,167	132,662
Unrestricted	744,530	750,771	762,211
Total net position	$ 3,786,845	$ 3,570,481	$ 3,354,116

(Continued)

(Columnar Amounts in Thousands)

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

	Year Ended June 30, 2017	2016	2015
Operating Revenues:			
Tuition and fees	$ 391,495	$ 376,599	$ 362,210
Federal grants and contracts - restricted	225,554	209,317	207,919
Private grants and contracts - restricted	212,147	187,745	194,249
State grants and contracts - restricted	53,473	47,594	41,936
Sales and services of educational activities	99,367	98,992	97,332
Sales and services of health care entities	27,437	23,557	24,828
Sales and services of auxiliary operations	180,665	175,915	156,423
Sales and services of auxiliary segments	125,694	121,910	119,043
Other operating revenues	12,956	13,238	12,235
Total operating revenues	1,328,788	1,254,867	1,216,175
Operating Expenses:			
Salaries and wages	980,234	922,800	892,585
Benefits	283,382	298,457	263,581
Total compensation and benefits	1,263,616	1,221,257	1,156,166
Supplies and materials	313,197	303,130	279,544
Contractual services	148,057	136,467	127,656
Repairs and maintenance	67,810	57,893	73,181
Utilities	33,306	32,400	33,655
Communications	11,625	10,467	13,352
Depreciation	120,111	115,216	106,270
Scholarships and fellowships	68,639	63,600	70,440
Total operating expenses	2,026,361	1,940,430	1,860,264
Operating Loss	(697,573)	(685,563)	(644,089)
Non-operating Revenues (Expenses):			
State of Nebraska non-capital appropriations	576,559	561,079	544,201
Federal grants	42,996	42,343	43,170
Gifts	101,173	95,741	120,225
Investment income	39,037	26,942	33,697
Increase (decrease) in fair value of investments	17,922	(12,154)	(18,100)
Interest on bond obligations	(24,044)	(24,424)	(22,752)
Equity in joint venture	36,784	47,982	32,500
Loss on disposal of plant assets	(9,456)	(9,488)	(2,984)
Net non-operating revenues	780,971	728,021	729,957
Income before Other Revenues, Expenses, Gains or Losses	83,398	42,458	85,868
Other Revenues, Expenses, Gains or Losses:			
State of Nebraska capital appropriations	32,497	60,353	49,245
Capital grants and gifts	98,506	112,856	86,497
Contribution/(distribution) to/from non-controlling interest	-	(1,003)	1,169
Additions to permanent endowments	1,963	1,701	58
Net other revenues, expenses, and gains or losses	132,966	173,907	136,969
Increase in net position	216,364	216,365	222,837
Net position, beginning of year	3,570,481	3,354,116	3,131,279
Net position, end of year	$ 3,786,845	$ 3,570,481	$ 3,354,116

(Continued)

Analysis of Financial Position. Cash and cash equivalents represent the preponderance of current assets of the University and decreased slightly in 2017 and 2016, following an increase in 2015.

Non-current assets of the University are dominated by the investment in capital assets. At June 30, 2017, total investment in capital assets was $3.6 billion, yielding a net investment, after accumulated depreciation, of $2.8 billion. The increase in capital assets was $179 million, consisting of additions of $299 million net of depreciation of $120 million. Changes in capital assets are further detailed in the capital asset section of this discussion.

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

Net bonded indebtedness increased by $39 million in 2017 following an increase of $38 million in 2016 and an increase of $37 million in 2015. Indebtedness issued was $194 million in 2017 with $162 million and $126 million issued in 2016 and 2015, respectively. The individual bond issuances were recounted earlier in this discussion and in the debt activity portion of this communication.

The unrestricted net position of the University decreased slightly by 1% or $6 million during the year to $745 million. As discussed earlier, the decrease is primarily attributable to increases in compensation and benefits and other operating expenses.

Analysis of Operations – Overview. The University generated $1,329 million of operating revenues during 2017, an increase of $74 million over 2016, while operating expenses were $2,026 million, up $86 million over the prior year. These changes resulted in an increase in the operating loss of $12 million to $698 million in 2017 compared to losses of $686 million and $644 million for 2016 and 2015. As disclosed earlier, because of the mandated financial reporting regarding classification of State appropriations and other funding sources, statements of activities for large public land-grant universities will invariably report an operating loss. If non-capital appropriations were added to the operating loss as displayed in the statements of revenues, expenses, and changes in net position, the University's "operating loss after appropriations" would have been $121 million in 2017 compared to similar "losses" of $125 million in 2016 and $100 million in 2015.

The Nebraska Legislature provided $577 million in non-capital appropriations for 2017, an increase of $16 million over 2016 following an increase of $17 million in 2016 and an increase of $16 million in 2015. The University, in conjunction with the Foundation, generated non-operating and capital gifts of approximately $200 million that, when combined with all other non-operating revenues and expenses including investment income of $39 million, netted an overall increase in net position of approximately $216 million.

(Columnar Amounts in Thousands)

Revenues. The following chart depicts the revenues for 2017 and 2016 and the comparative changes that occurred between those years.

	2017		2016		2017-2016 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Tuition and fees	$ 391,495	29%	$ 376,599	30%	$ 14,896	4%
Federal grants and contracts - restricted	225,554	17	209,317	17	16,237	8
Private grants and contracts - restricted	212,147	16	187,745	15	24,402	13
State grants and contracts - restricted	53,473	4	47,594	3	5,879	12
Sales and services of educational activities	99,367	7	98,992	8	375	-
Sales and services of health care entities	27,437	2	23,557	2	3,880	16
Sales and services of auxiliary operations	180,665	14	175,915	14	4,750	3
Sales and services of auxiliary segments	125,694	10	121,910	10	3,784	3
Other operating revenues	12,956	1	13,238	1	(282)	(2)
Total operating revenues	$ 1,328,788	100%	$ 1,254,867	100%	$ 73,921	6%

The University's operating revenues increased in fiscal year 2017 by 6% or $74 million. A three year comparison of revenues for the years 2017, 2016, and 2015 is presented on page 11.

- The largest increase in revenue was realized in private grants and contracts, which increased by $24 million in 2017 compared to 2016, following a decrease of $7 million in 2016 compared to 2015. The increase results from additional funding from several entities, including Nebraska Medicine, of which UNMC has an equity interest.

- The second largest increase in revenue was Federal grants and contracts, showing an increase of $16 million. This is an 8% increase in 2017 compared to a modest 1% increase in 2016. A boost in funding from the Department of Energy and the Department of Health & Human Services to UNMC is the primary driver of the increase.

- The third largest increase in revenue was realized in tuition and fees, which increased during the year by 4% on the strength of enrollment growth and an increase in tuition of 2.5%.

(Columnar Amounts in Thousands)

Expenses. The following chart shows the University's expenses for 2017 and 2016 and comparative changes that occurred between those years. A three year comparison of expenses for the years 2017, 2016, and 2015 is presented on page 11.

	2017		2016		2017-2016 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Compensation and benefits	$ 1,263,616	62%	$ 1,221,257	63%	$ 42,359	4%
Supplies and materials	313,197	15	303,130	15	10,067	3
Contractual services	148,057	7	136,467	7	11,590	9
Repairs and maintenance	67,810	3	57,893	3	9,917	17
Utilities	33,306	2	32,400	2	906	3
Communications	11,625	1	10,467	1	1,158	11
Depreciation	120,111	6	115,216	6	4,895	4
Scholarships and fellowships	68,639	4	63,600	3	5,039	8
Total operating expenses	$ 2,026,361	100%	$ 1,940,430	100%	$ 85,931	4%

Operating expenses increased by $86 million for the 2017 fiscal year. Changes in the major expense classifications follow.

- Compensation and benefits increased by 4% in 2017 following a 6% increase in both 2016 and 2015. While the 2017 University salary pool was 3%, additional amounts were expended for targeted strategic growth areas including continued support for programs of excellence, funding for instructional workload salaries, research initiative programs, maintenance services for newly opened facilities, and significant increases in the cost of health benefits.

- Contractual services and supplies and materials are the second and third largest increase after compensation and benefits, respectively. Contractual services increased by $12 million in 2017 compared to 2016 and was driven by an increase in grant activity. Supplies and materials increased by 3% compared to 2016 and reflects a generally higher level of business activity.

- Repairs and maintenance was $68 million in 2017 compared to $58 million in 2016 and $73 million in 2015. This trend reflects a managed level of expenses, yet indicates an on-going, consistent commitment to fund and maintain capital assets over and above the on-going bond financed deferred maintenance program.

- Utilities expense increased slightly in 2017 after a small decrease in 2016 compared to 2015. The relatively flat trend in energy consumption reflects usage in newly occupied facilities being offset by savings realized from energy conservation measures. Projects undertaken to reduce consumption included chiller replacements, window replacements, and other deferred maintenance projects.

(Continued)

Non-Operating Revenues (Expenses). Net non-operating revenues increased $53 million during 2017 compared to 2016. Increases in state appropriations, investment income, and fair value of investments account for the majority of the change.

Support from the Foundation and the private sector remain strong and provided the University with capital and non-capital gifts during the year of $99 million and $101 million, respectively. This compares to $113 million and $96 million during 2016. Non-capital gifts support scholarships to students, professorships, and a variety of academic and research pursuits.

Other Revenues, Expenses, Gains, or Losses. State of Nebraska capital appropriations decreased by $28 million in 2017 following increases of $11 million in 2016 and $22 million 2015. The decrease in 2017 is due to completion or near completion of several construction projects funded through state support. Capital appropriations include a total of $11 million each year for debt service on both the 2016 and 2009 Series of deferred maintenance bonds.

Capital Assets

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

- At UNMC, the construction of the new state-of-the-art Fred & Pamela Buffett Cancer Center was completed in June 2017. At a cost of $328 million, it is one of 69 National Cancer Institute designated centers in the country. The project was funded from multiple sources, including non-capital appropriations, gifts, and bond funds.
- Renovation of the Milo Bail Student Center at UNO was completed at a cost of $21 million. The Student Center houses the UNO Bookstore, food service and catering, and other student services.
- At UNL, construction continued on the new Howard L. Hawks College of Business at a cost of $84 million, funded entirely by donor contributions, and will be occupied in August 2017. The Willa Cather Dining Complex was completed at a cost of $29 million and was opened in June 2017. Renovation of Ross McCollum Hall, home of the College of Law was also completed in 2017 at a cost $13 million.

More information on capital asset activity is disclosed in the Notes to the Financial Statements included in this report on page 38.

Debt Activity

Bond Financings. The University marketed five bond financings during 2017. Three financings were issued through the MTI:

- The Board of Regents issued $66,760 of University of Nebraska-Lincoln Revenue and Refunding Bonds, Series 2016A. The net proceeds of the bonds, along with other funds, were used to advance refund $22,430 of Series 2008A Bonds and $46,075 of Series 2009A Bonds.
- The Board of Regents issued $37,280 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2016B. The proceeds, together with other funds, were used to advance refund $37,455 of Series 2008 Bonds.
- The Board of Regents issued $12,690 of University of Nebraska at Kearney Revenue Bonds, Series 2017. Net proceeds of the bonds, together with other funds, will be used to pay the cost student housing facilities on campus.

(Continued)

UNFC sold two bond issues during the year:

- UNFC issued $59,010 of UNMC Davis Global Center Project Bonds, Series 2017. The proceeds, with other available funds, will be used to construct an interprofessional Experiential Center for Enduring Learning facility on the UNMC campus.

- UNFC issued $18,520 of UNL Health Center and College of Nursing Projects Bonds, Series 2016. The proceeds will be used to construct a new facility for the UNMC College of Nursing combined with a new UNL student health center, and refund $1,880 of Series 2004 Bonds (UNL Library Storage Facility).

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

The Board of Regents of the University of Nebraska Members of the Obligated Group under the MTI has bonds outstanding from the construction of student housing, parking, student recreation, and student unions. The financial position of the MTI remains strong with operating income that provided a debt service ratio of 1.72 times for the year ended June 30, 2017, compared to 1.68 times for 2016 and 1.75 times in 2015. The debt service ratio required by the MTI covenants is 1.15 times.

UNFC met all debt service requirements during 2017. The State Legislature has reaffirmed the appropriation of funds for their portion of the debt service pertaining to the Deferred Maintenance Projects, the NCTA Education Center and Vet Diagnostic Center. The Deferred Maintenance Project appropriation of $11 million is matched with designated tuition revenues for debt service on the deferred maintenance bond issues. The Foundation continues to receive funds, as scheduled, from donor gifts pledged toward the funding of the gift-funded projects. Funds from internal University sources continue to meet expectations allowing the service of UNFC-related debt obligations in their normal course.

More information on debt financing is disclosed on page 39 in the Notes to Financial Statements included in this report.

Economic Outlook and Subsequent Events That Will Affect the Future

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

The 2017 session of the Nebraska Legislature was a "long session" that included formation and passage of a state budget for the two-year biennium ending June 30, 2019. Prior to the session, late in calendar 2016, the Governor proposed a series of mid-year cuts to selected agencies, including the University of Nebraska. The mid-year cut to the University was 2.3% or about $13 million dollars. The Legislature, in one of its first actions, passed legislation to enact this rescission of 2017 operating appropriations. When the 2018 and 2019 budgets were passed by the body, the reduced level of funding for 2017 went on to become the fiscal 2018 appropriation base for the University, providing no increases, with $10 million of the cuts targeted to being restored in fiscal 2019.

The fiscal impact of the foregoing will basically force the University to absorb any increases in costs over the biennium. Wage increases, including those with bargaining units, health benefits, utilities, and other costs peg the estimated increases at approximately $50 million. The Board of Regents has passed tuition increases for fiscal 2018 and 2019 that are estimated to cover about $20 million of the shortfall.

The University will respond to the remainder of the cuts through a combination of streamlining, seeking budget efficiencies in operations, and reallocations designed to protect strategic priorities, while striving to keep the University affordable in comparison to peers. President Hank Bounds shared his thoughts on the situation recently. "We recognize that the state is facing fiscal challenges, and the University certainly will be impacted. We're fortunate that Nebraska policymakers have a long history of supporting affordable, quality higher education and we're working closely with them as they determine their priorities for the state."

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

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

Fall 2017 enrollments are up slightly overall, in terms of headcount. Headcount is the highest it has been since the 1990's. We attribute this steady growth to tuition being favorable to peers. Attracting and retaining the best and brightest is so important in growing Nebraska, especially in a state with an unemployment rate under 3%.

The University of Nebraska Foundation also continues to provide much needed resources. Funds provided to the University, predominantly restricted to capital, academic support, and student assistance, totaled $193 million in 2017, yielding a four-year total of over $800 million. This is greatly valued as it provides scholarships, professorships, and much needed capital project monies, the very things that will strategically power the University forward.

In a focused effort to chart the future direction of resource deployment at the University of Nebraska, the President and the Board of Regents have set forth a strategic framework and priorities that will guide the path forward. These will help channel resources to carefully considered objectives that will help the University better serve Nebraskans through quality teaching, research, and outreach and engagement.

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

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 570,924	$ 612,545
Cash and cash equivalents - restricted	263,222	238,619
Cash and cash equivalents held by trustee - restricted	69,574	68,349
Investments - restricted	167,884	163,068
Investments held by trustee - restricted	-	11,853
Accounts receivable and unbilled charges, net	209,211	179,548
Loans to students, net	5,263	5,303
Other current assets	28,472	25,717
Total current assets	1,314,550	1,305,002
NON-CURRENT ASSETS:		
Cash and cash equivalents - restricted	2,566	1,941
Cash and cash equivalents held by trustee - restricted	232,907	225,641
Investments - restricted	334,423	310,185
Investments held by trustee - restricted	14,508	17,260
Accounts receivable and unbilled charges, net	21,114	20,008
Investment in joint venture	415,573	385,080
Loans to students, net of current portion	28,847	30,865
Capital assets, net of accumulated depreciation	2,768,094	2,588,806
Other non-current assets	735	762
Total non-current assets	3,818,767	3,580,548
Total assets	5,133,317	4,885,550
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred loss on bond refunding	16,681	7,630
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	110,275	140,935
Accrued salaries and wages	47,784	44,366
Accrued compensated absences	56,145	53,156
Bond obligations payable	90,374	61,133
Capital lease obligations	234	432
Unearned revenues and credits	136,797	112,677
Health and other insurance claims	11,011	11,471
Total current liabilities	452,620	424,170
NON-CURRENT LIABILITIES:		
Accounts payable	-	2,825
Accrued salaries and wages, net of current portion	19	153
Accrued compensated absences, net of current portion	18,436	17,402
Bond obligations payable, net of current portion	821,946	812,425
Capital lease obligations, net of current portion	48,896	48,091
Health and other insurance claims, net of current portion	1,750	3,110
Total non-current liabilities	891,047	884,006
Total liabilities	1,343,667	1,308,176
DEFERRED INFLOWS OF RESOURCES:		
Deferred service concession arrangement receipts	18,546	14,348
Deferred gain on bond refunding	940	175
Total deferred inflows of resources	19,486	14,523
NET POSITION:		
Net investment in capital assets	2,165,096	1,953,065
Restricted for:		
Nonexpendable:		
Permanent endowment	225,334	207,481
Expendable:		
Externally restricted funds for scholarships, student aid, and research	251,380	227,970
Loan funds	43,439	43,110
Plant construction	211,566	243,917
Debt service	145,500	144,167
Unrestricted	744,530	750,771
Total net position	$ 3,786,845	$ 3,570,481

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, 3, and 4)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 40,780	$ 27,100
Temporary investments	373,191	354,396
Pledges receivable	202,003	233,613
Other receivables	5,509	3,435
Investments	1,659,647	1,529,338
Property and equipment, net of depreciation	52,133	53,035
Total assets	$ 2,333,263	$ 2,200,917
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 5,232	$ 1,404
University of Nebraska benefits payable	1,188	1,244
Scholarships, research, fellowships and professorships payable	13,353	12,171
Note payable	16,971	16,382
Deferred annuities payable	19,167	18,779
Deposits held in custody for others	325,803	299,673
Deferred revenue	3,117	6,556
Total liabilities	384,831	356,209
NET ASSETS:		
Unrestricted	13,507	(26,299)
Temporarily restricted	966,858	949,313
Permanently restricted	968,067	921,694
Total net assets	1,948,432	1,844,708
Total liabilities and net assets	$ 2,333,263	$ 2,200,917

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2017	2016
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of $126,157 and $117,177 in 2017 and 2016, respectively)	$ 391,495	$ 376,599
Federal grants and contracts - restricted	225,554	209,317
Private grants and contracts - restricted	212,147	187,745
State and local grants and contracts - restricted	53,473	47,594
Sales and services of educational activities	99,367	98,992
Sales and services of health care entities	27,437	23,557
Sales and services of auxiliary operations	180,665	175,915
Sales and services of auxiliary segments (net of scholarship allowances of $13,902 and $13,405 in 2017 and 2016, respectively)	125,694	121,910
Other operating revenues	12,956	13,238
Total operating revenues	1,328,788	1,254,867
OPERATING EXPENSES:		
Salaries and wages	980,234	922,800
Benefits	283,382	298,457
Total compensation and benefits	1,263,616	1,221,257
Supplies and materials	313,197	303,130
Contractual services	148,057	136,467
Repairs and maintenance	67,810	57,893
Utilities	33,306	32,400
Communications	11,625	10,467
Depreciation	120,111	115,216
Scholarships and fellowships	68,639	63,600
Total operating expenses	2,026,361	1,940,430
OPERATING LOSS	(697,573)	(685,563)
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	576,559	561,079
Federal Grants	42,996	42,343
Gifts	101,173	95,741
Investment income (net of investment management fees of $6,666 and $6,791 in 2017 and 2016, respectively)	39,037	26,942
Increase (decrease) in fair value of investments	17,922	(12,154)
Interest on bond obligations	(24,044)	(24,424)
Equity in joint venture	36,784	47,982
Loss on disposal of capital assets	(9,456)	(9,488)
Net non-operating revenues	780,971	728,021
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	83,398	42,458
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	32,497	60,353
Capital grants and gifts	98,506	112,856
Distribution to non-controlling interest	-	(1,003)
Additions to permanent endowments	1,963	1,701
Net other revenues, expenses, gains, or losses	132,966	173,907
INCREASE IN NET POSITION	216,364	216,365
NET POSITION:		
Net position, beginning of year	3,570,481	3,354,116
Net position, end of year	$ 3,786,845	$ 3,570,481

See notes to financial statements.

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

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

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(Thousands)
(See Independent Auditors' Reports on Pages 1, 2, 3, and 4)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND GAINS:				
Gifts, bequests, and life insurance proceeds	$ 1,758	$ 189,536	$ 37,577	$ 228,871
Investment income	27,934	4,884	-	32,818
Change in value of split-interest agreements	-	989	-	989
Realized and unrealized gains (losses), net	(41,726)	(6,740)	-	(48,466)
	(12,034)	188,669	37,577	214,212
Reclassification due to change in donor intent	-	(2,879)	2,879	-
NET ASSETS RELEASED FROM RESTRICTIONS	204,885	(204,885)	-	-
Total revenue and gains	192,851	(19,095)	40,456	214,212
EXPENSES				
Payments to benefit the University:				
Academic support	55,331	-	-	55,331
Student assistance	26,327	-	-	26,327
Faculty assistance	5,731	-	-	5,731
Research	9,123	-	-	9,123
Museum, library, and fine arts	2,729	-	-	2,729
Campus and building improvements	106,342	-	-	106,342
Alumni associations	796	-	-	796
Deferred compensation	1	-	-	1
Total payments to benefit the University	206,380	-	-	206,380
Operating expenses:				
Salaries and benefits	18,374	-	-	18,374
General and administrative	6,157	-	-	6,157
Fund-raising, promotion, and development	2,194	-	-	2,194
Contributions to other charities	98	-	-	98
Paid to beneficiaries	2,958	-	-	2,958
Depreciation	1,085	-	-	1,085
Total operating expenses	30,866	-	-	30,866
Total expenses	237,246	-	-	237,246
INCREASE (DECREASE) IN NET ASSETS	(44,395)	(19,095)	40,456	(23,034)
NET ASSETS at beginning of year	18,096	968,408	881,238	1,867,742
NET ASSETS at end of year	$ (26,299)	$ 949,313	$ 921,694	$ 1,844,708

See notes to financial statements.

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	$ 503,379	$ 469,835
Tuition and fees	392,553	376,062
Sales and services of health care entities	26,723	24,269
Sales and services of auxiliary operations	160,388	169,432
Sales and services of auxiliary segments	127,047	122,149
Sales and services of educational activities	98,893	98,797
Student loans collected	6,265	5,656
Payments to employees	(1,256,297)	(1,179,205)
Payments to vendors	(581,973)	(548,580)
Scholarships paid to students	(68,639)	(63,600)
Student loans issued	(4,712)	(8,133)
Other payments	(7,927)	(32,024)
Net cash flows from operating activities	(604,300)	(565,342)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State of Nebraska non-capital appropriations	576,559	561,079
Gifts	103,408	97,265
Federal grants	42,996	42,343
Other receipts	3,282	-
Direct lending receipts	242,891	234,094
Direct lending payments	(242,891)	(234,094)
Net cash flows from non-capital financing activities	726,245	700,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	194,260	161,730
Gifts	95,824	113,729
State of Nebraska capital appropriations	36,158	61,922
Premium on issuance of bonds	19,642	9,819
Proceeds from the sale of capital assets	2,797	-
Purchases of capital assets	(311,868)	(375,028)
Defeasance of bond obligations	(114,067)	(85,112)
Principal paid on bond obligations	(63,285)	(45,655)
Interest paid on bond obligations	(37,522)	(34,685)
Payment of bond financial expense	-	(1,002)
Payments made on lease obligations	(718)	(542)
Net cash flows from capital and related financing activities	(178,779)	(194,824)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	219,727	290,971
Interest on investments	38,495	28,599
Distributions received from joint venture	7,026	6,000
Purchases of investments	(216,316)	(269,905)
Net cash flows from investing activities	48,932	55,665
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,902)	(3,814)
CASH AND CASH EQUIVALENTS, beginning of year	1,147,095	1,150,909
CASH AND CASH EQUIVALENTS, end of year	$ 1,139,193	$ 1,147,095

See notes to financial statements.

(Continued)

THE UNIVERSITY OF NEBRASKA

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, and 3)

	2017	2016
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET POSITION:		
Cash and cash equivalents (current)	$ 570,924	$ 612,545
Cash and cash equivalents - restricted (current)	263,222	238,619
Cash and cash equivalents held by trustee - restricted (current)	69,574	68,349
Cash and cash equivalents - restricted (non-current)	2,566	1,941
Cash and cash equivalents held by trustee - restricted (non-current)	232,907	225,641
Cash and cash equivalents, end of year	$ 1,139,193	$ 1,147,095
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (697,573)	$ (685,563)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	120,111	115,216
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(27,753)	(12,369)
Loans to students	2,059	(660)
Other current assets	(15,400)	7,472
Accounts payable	(11,114)	(12,766)
Accrued salaries and wages	7,316	(3,441)
Unearned revenues and credits	19,875	25,640
Health and other insurance claims	(1,821)	1,129
Net cash flows used in operating activities	$ (604,300)	$ (565,342)
NON-CASH TRANSACTIONS:		
Capital gifts and grants	$ 41	$ 78
Increase (decrease) in fair value of investments	17,922	(12,154)
Purchase of capital assets through lease obligations	622	36,631

See notes to financial statements.

UNIVERSITY OF NEBRASKA FOUNDATION
(A Component Unit of the University of Nebraska)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Thousands)
(See Independent Auditors' Report on Pages 1, 2, 3, and 4)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 103,724	$ (23,034)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,706	1,085
Net realized and unrealized losses (gains) on investments	(119,798)	48,466
Imputed interest expense	589	-
Contribution to permanently restricted endowment funds	(31,096)	(37,577)
Real and personal property contributions received	(119)	(19,645)
(Increase) Decrease in:		
Pledges receivable	29,180	(23,942)
Other receivables	(2,053)	275
(Decrease) Increase in:		
Accounts payable and accrued liabilities	3,828	416
University of Nebraska benefits payable	(56)	(1,106)
Scholarships, research, fellowships and professorships payable	1,182	4,690
Deferred annuities payable	388	(1,319)
Deferred revenue	(3,439)	3,164
Net cash used in operating activities	(15,964)	(48,527)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of temporary investments	(272,253)	(106,247)
Proceeds from sale and maturity of temporary investments	258,020	150,123
Net increase in student loans	(21)	(40)
Purchase of investments	(351,822)	(381,764)
Proceeds from sale and maturity of investments	362,998	381,718
Proceeds from sales of property and equipment	14	2,317
Purchase of property and equipment	(818)	(13,970)
Net cash provided by (used in) investing activities	(3,882)	32,137
CASH FLOWS FROM FINANCING ACTIVITY:		
Contribution to permanently restricted endowment funds	33,526	42,351
Net cash provided by financing activities	33,526	42,351
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,680	25,961
CASH AND CASH EQUIVALENTS, beginning of year	27,100	998
Change in reporting unit, cash and cash equivalents	-	141
CASH AND CASH EQUIVALENTS, end of year	$ 40,780	$ 27,100
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Note payable for acquisition of property	$ -	$ 16,382
Donation of property	-	19,136

See notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB requires the following components of the basic financial statements:

- Management's Discussion and Analysis

- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements

The University follows all applicable GASB pronouncements.

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

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

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

- The University Dental Associates (UDA) is a not-for-profit corporation organized for the purpose of billing, collecting, and distributing dental service fees generated by dentists employed by the UNMC. The distribution of fees is governed by the terms of the University of Nebraska Dental Service Plan applicable to member dentists.

- The UNMC Science Research Fund (SRF) is a not-for-profit corporation organized by the Board of Regents to solely support the research mission of the UNMC and provides services entirely, or almost entirely, to UNMC and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements.

- Nebraska Utility Corporation (NUCorp) is a not-for-profit corporation formed under the Nebraska Interlocal Cooperation Act between the Board of Regents and Lincoln Electric System. The purpose of NUCorp is to purchase, lease, construct, and finance activities relating to furnishing energy requirements and utility and infrastructure facilities for the University of Nebraska-Lincoln (UNL). NUCorp provides services entirely, or almost entirely, to the UNL campus. NUCorp is governed by a five-member Board, three of which are University officials.

- The University Technology Development Corporation (UTDC) was organized to solely support the research mission of the University and provides services entirely, or almost entirely, to the University campuses and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements. The blended entity consists of the UTDC activity and the activities of four nonprofit subsidiaries and one for profit subsidiary. UTDC is the sole member/stockholder of each subsidiary.

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

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

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

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

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

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

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

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

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

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the University during 2017 and 2016 was $24,044 and $24,424, respectively, which is net of $7,736 and $8,849 that was capitalized.

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

Accrued Compensated Absences – Staff and certain University faculty earn 12 to 25 days of vacation annually. Vacation is no longer earned once an employee accrues 280 hours of unused vacation. Any unused vacation balance is carried over into the next year. Vacation may be used or received as a cash payment upon retirement or termination. In addition, certain classified staff receive a cash payment of one-fourth of accrued sick leave upon retirement from the University. The University has recognized a liability for sick and annual leave earned but not yet taken by its faculty and staff. Certain University faculty and staff also earn four floating holidays each year, subject to a 32 hour cap, which may be taken at any time during the year.

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

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

Classification of Revenues and Expenses – The University has classified its revenues and expenses as either operating or non-operating revenues and expenses according to the following criteria:

Operating Revenues and Expenses – Operating revenues and expenses include activities that have the characteristics of exchange transactions.

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

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

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

Scholarships and Fellowships – The University receives funds that are restricted by donors and grantors for aid to students. When these funds are granted to students or when scholarships and fellowships are provided through student tuition waiver, the University records the expense for student aid and the corresponding revenue. Accordingly, at June 30, 2017 and 2016, Federal grants and contracts includes Pell grant awards amounting to $43,071 and $42,396, respectively, and are also included in Scholarships and Fellowships expense. For employee tuition waivers, the University records a benefit expense and corresponding revenue. Ford direct student loans amounting to $242,891 and $234,094 at June 30, 2017 and 2016, respectively, are treated as agency funds and not included in revenues and expenses.

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

(Continued)

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

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

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

Reclassifications – Certain 2016 amounts have been reclassified to conform to the current year presentation.

B. DEPOSITS

Custodial credit risk – In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a formal custodial risk policy. Bank balances of cash and cash equivalents amounted to approximately $1,591 (book balance of approximately $1,028) at June 30, 2017, with approximately $1,575 covered by Federal depository insurance. Bank balances of cash and cash equivalents amounted to approximately $1,419 (book balance of approximately $844) at June 30, 2016, with approximately $1,141 covered by Federal depository insurance. The remaining bank balances at June 30, 2017 and 2016, were collateralized with securities held by the pledging financial institution, but not in the University's name.

C. INVESTMENTS

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

The University utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

(Thousands)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of broadly traded range of equity and debt securities.

- Level 2 inputs are those other than quoted prices included in Level 1 that are observable for the asset or liability, whether directly or indirectly.

- Level 3 inputs are unobservable and significant to the fair value measurement of the asset or liability.

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

	Assets at fair value as of June 30, 2017			
	Total	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit and money market funds	$ 749	$ 749	$ -	$ -
U.S. government securities	61,837	-	61,837	-
State government securities	1,450	-	1,450	-
International bonds	9,752	-	9,752	-
Corporate bonds	61,214	-	61,214	-
Common stock	123,410	123,410	-	-
International Equity	88,012	88,012	-	-
Mutual funds-equity	22,919	22,919	-	-
Mutual funds-fixed income	128,140	128,140	-	-
Index funds-commodities	2,729	2,729	-	-
Index funds-public equity	5,334	5,334	-	-
Real estate held for investment purposes	932	-	-	932
Real estate mutual funds	10,337	10,337	-	-
Total	$ 516,815	$ 381,630	$ 134,253	$ 932

(Thousands)

	Assets at fair value as of June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit and money market funds	$ 3,225	$ 3,225	$ -	$ -
U.S. government securities	75,936	-	75,936	-
State government securities	1,379	-	1,379	-
International bonds	9,952	-	9,952	-
Corporate bonds	69,764	-	69,764	-
Common stock	128,365	128,365	-	-
International Equity	67,036	67,036	-	-
Mutual funds-equity	7,058	7,058	-	-
Mutual funds-fixed income	115,083	115,083	-	-
Index funds-commodities	3,007	3,007	-	-
Index funds-public equity	10,002	10,002	-	-
Real estate held for investment purposes	850	-	-	850
Real estate mutual funds	10,709	10,709	-	-
Total	$ 502,366	$ 344,485	$ 157,031	$ 850

(Thousands)

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

	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Investments type:					
Debt securities:					
U.S. treasuries	$ 17,059	$ 204	$ 4,448	$ 11,186	$ 1,221
U.S. agencies	44,778	1,865	13,189	1,171	28,553
State governments	1,450	-	1,384	-	66
Corporate bonds	61,214	5,417 (1)	39,471 (2)	13,634 (3)	2,692
International bonds	9,752	1,730	4,492	1,525	2,005
	134,253	$ 9,216	$ 62,984	$ 27,516	$ 34,537
Other investments:					
Equity securities - domestic	151,663				
Equity securities - international	88,012				
Mutual funds	130,869				
Real estate mutual funds	10,337				
Real estate held for investment purposes	932				
Money market funds	749				
Total	$ 516,815				

(1) This amount includes $1,000 of bonds callable in less than1 year.

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

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

(Thousands)

Investments maturities as of June 30, 2016 are as follows:

		Investment Maturities (in years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Investment type:					
Debt securities:					
Certificates of Deposit	$ 95	$ 95	$ -	$ -	$ -
U.S. treasuries	29,915	13,328	3,671	12,036	880
U.S. agencies	46,021	6,505	11,172	1,168	27,176
State governments	1,379	-	1,379	-	-
Corporate bonds	69,764	12,657 (1)	31,025 (2)	22,604 (3)	3,478 (4)
International bonds	9,952	1,471	3,526	1,986	2,969
	157,126	$ 34,056	$ 50,773	$ 37,794	$ 34,503
Other investments:					
Equity securities - domestic	135,423				
Equity securities - international	67,036				
Mutual funds	128,092				
Real estate mutual funds	10,709				
Real estate held for investment purposes	850				
Money market funds	3,130				
Total	$ 502,366				

(1) This amount includes $200 of bonds callable in less than1 year.
(2) This amount includes $1,322 of bonds callable in less than 2 years, $1,894 of bonds callable in less than 4 years, and $1,345 of bonds callable in less than 5 years.
(3) This amount includes $1,550 of bonds callable in less than 2 years, $4,698 of bonds callable in less than 7 years, and $1,853 of bonds callable in less than 9 years.
(4) This amount includes $240 of bonds callable in less than 30 years.

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

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

(Thousands)

	2017					
		Quality Ratings				
	Fair Value	Aaa	AA	A	Baa	Unrated
Investment type:						
Debt securities:						
U.S. treasuries	$ 17,059	$ 17,059	$ -	$ -	$ -	$ -
U.S. agencies	44,778	44,778	-	-	-	-
State governments	1,450	-	-	66	1,384	-
Corporate bonds	61,214	5,370	16,642	36,547	2,337	318
International bonds	9,752	2,787	2,414	3,329	1,099	123
Other investments:						
Equity securities - domestic	151,663	-	-	-	-	151,663
Equity securities - international	88,012	-	-	-	-	88,012
Mutual funds	130,869	-	-	-	-	130,869
Real estate mutual funds	10,337	-	-	-	-	10,337
Real estate held for investment purposes	932	-	-	-	-	932
Money market funds	749	-	-	-	-	749
	$ 516,815	$ 69,994	$ 19,056	$ 39,942	$ 4,820	$ 383,003

	2016					
		Quality Ratings				
	Fair Value	Aaa	AA	A	Baa	Unrated
Investment type:						
Debt securities:						
Certificates of Deposit	$ 95	$ -	$ -	$ -	$ -	$ 95
U.S. treasuries	29,915	29,915	-	-	-	-
U.S. agencies	46,021	46,021	-	-	-	-
State governments	1,379	-	-	1,379	-	-
Corporate bonds	69,764	8,758	18,585	37,172	3,965	1,284
International bonds	9,952	3,427	2,781	1,934	1,088	722
Other investments:						
Equity securities - domestic	135,423	-	-	-	-	135,423
Equity securities - international	67,036	-	-	-	-	67,036
Mutual funds	128,092	-	-	-	-	128,092
Real estate mutual funds	10,709	-	-	-	-	10,709
Real estate held for investment purposes	850	-	-	-	-	850
Money market funds	3,130	-	-	-	-	3,130
	$ 502,366	$ 88,121	$ 21,366	$ 40,485	$ 5,053	$ 347,341

(Continued)

(Thousands)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University places no limit on the amount that may be invested in any one issuer. No issuer represents greater than 5% of the portfolio at June 30, 2017.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal custodial credit risk policy. Investments are stated at fair value and are uninsured, unregistered, and held by the trustee or an agent, but not in the name of the University.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have a formal policy to limit foreign currency risk. Primary exposure to foreign currency risk from investment in international bonds is presented in the following table.

	Foreign Currency	
	2017	2016
Mexican Peso	$ 2,106	$ 2,054
EMU Euro	158	169
Australian Dollar	744	914
British Pound	944	919
Brazilian Real	902	414
Poland Zloty	651	351
South African Rand	530	345
New Zealand Dollar	-	439
Totals	$ 6,035	$ 5,605

 (Continued)

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

Substantially all amounts included in accounts receivable and unbilled charges represent tuition receivables, grant reimbursements, unbilled charges, patient accounts receivable, and other receivables. Balances are stated net of allowances for doubtful accounts and contractual adjustments of approximately $13,002 and $11,781 at June 30, 2017 and 2016, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately $3,777 and $3,430 at June 30, 2017 and 2016, respectively.

E. INVESTMENT IN JOINT VENTURE

The University and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 forming the Nebraska Health System, a Nebraska non-profit corporation doing business as the Nebraska Medical Center. Effective July 1, 2016, NMC, the University, Clarkson, and UNMC Physicians (UNMCP) entered into a System Integration Agreement (SIA) and a successor Joint Operating Agreement (SJOA) to permanently integrate the businesses of NMC and UNMCP into Nebraska Medicine (NM). Should there be a dissolution of NM, the University and Clarkson will share equally in the remaining net position. As the University has an ongoing financial interest in NM, the University is accounting for the joint venture under the equity method, and accordingly, equity in joint venture in the accompanying statement of net position represents its one-half undivided interest based on the separate financial statements of the venture. The University has recorded 50% equity in earnings of NM for the years ended June 30, 2017 and 2016 totaling $36,784 and $47,982, respectively. In addition, to the extent that sufficient funds are available, as determined by the NM Board of Directors, the University will receive an annual capital distribution. Distributions of $6 million, shared equally by the venturers, were declared and paid for both 2017 and 2016.

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

In addition, the University and NM have entered into an Academic Affiliation Agreement for Education and Research. In connection with the agreement, NM has agreed to financially support certain educational, research, operational, and clinical activities of the University College of Medicine that further the mission and objectives of NM. During the fiscal years ended June 30, 2017 and 2016, the University received approximately $60,586 and $48,764, respectively, of support in connection with the agreement.

(Thousands)

F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

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

(Thousands)

	2016			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	$ 87,782	$ 3,592	$ 75	$ 91,299
Construction work in progress	345,823	319,143	238,071	426,895
Total capital assets not being depreciated	433,605	322,735	238,146	518,194
Capital assets, being depreciated:				
Land improvements	210,636	49,158	8,383	251,411
Leasehold improvements	20,443	20,183	-	40,626
Buildings	2,165,126	219,095	36,297	2,347,924
Equipment	443,971	46,740	19,726	470,985
Total capital assets, being depreciated	2,840,176	335,176	64,406	3,110,946
Less accumulated depreciation for:				
Land improvements	72,581	9,636	2,274	79,943
Leasehold improvements	5,937	1,964	-	7,901
Buildings	587,484	67,808	34,996	620,296
Equipment	314,041	35,808	17,655	332,194
Total accumulated depreciation other assets	980,043	115,216	54,925	1,040,334
Capital assets, net	$ 2,293,738	$ 542,695	$ 247,627	$ 2,588,806

G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2017	$ 70,558	$ 53,633	$ 49,610	$ 74,581	$ 56,145
2016	$ 68,103	$ 51,512	$ 49,057	$ 70,558	$ 53,156

H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2017	$ 826,625	$ 194,260	$ 169,245	$ 851,640	$ 84,530
2016	$ 792,995	$ 161,730	$ 128,100	$ 826,625	$ 55,905

(Continued)

(Thousands)

Bond obligations payable at June 30, 2017 and 2016 consist of the following:

	Coupon	Annual	Principal Amount Outstanding	
Obligations under the master trust indenture:	Rate	Installment	2017	2016
University of Nebraska-Lincoln:				
Student Fees and Facilities:				
Series 2008A, revenue bonds	3.65 - 5.00%	$ 1,415 - $ 2,360	$ -	$ 23,845
Series 2009A, revenue bonds	3.50 - 5.25%	1,220 - 2,990	-	47,295
Series 2009B, revenue bonds	3.00 - 5.70%	460 - 1,840	8,880	9,340
Series 2011, revenue bonds	2.00 - 5.00%	1,435 - 4,095	63,475	63,475
Series 2012, refunding bonds	3.99 - 5.00%	1,220 - 4,780	63,020	67,800
Series 2012B, revenue bonds	1.50 - 5.00%	350 - 1,640	17,100	18,115
Series 2015A, revenue bonds	2.00 - 5.00%	1,260 - 4,100	66,615	66,615
Series 2016A, revenue bonds	3.00 - 5.00%	1,995 - 4,365	66,760	-
Lincoln Parking Project:				
Series 2009A&B, revenue bonds	3.50 - 6.00%	720 - 1,110	10,865	11,560
Series 2013, revenue and refunding	2.00 - 4.00%	265 - 440	5,440	5,700
Series 2015, revenue and refunding	2.00 - 5.00%	505 - 1,965	8,425	10,180
University of Nebraska at Omaha:				
Student Facilities:				
Student HPER Project Series 2008, revenue bonds	3.50 - 5.00%	985 - 2,700	-	37,455
Series 2015B, revenue bonds	2.00 - 5.00%	370 - 640	8,540	8,910
Series 2016B, revenue bonds	3.75 - 5.00%	915 - 2,295	36,365	-
Student Housing and Parking:				
Series 2010A, revenue bonds	2.75 - 5.00%	735 - 1,175	12,345	13,080
Series 2010B, revenue bonds	3.00 - 5.00%	405 - 1,060	15,405	15,810
Series 2014, revenue bonds	1.50 - 5.00%	500 - 790	10,105	10,605
Series 2015, revenue and refunding bonds	1.20 - 5.00%	890 - 2,580	43,080	43,970
University of Nebraska Medical Center:				
Student Housing revenue bonds Series 2003	4.05 - 5.00%	155 - 330	-	3,910
University of Nebraska at Kearney:				
Student Facilities:				
Series 2015, revenue bonds	2.00 - 3.15%	815 - 1,270	18,255	19,050
Series 2017, revenue bonds	2.00 - 4.00%	275 - 675	12,690	-
Total obligations under the master trust indenture			467,365	476,715
Obligations of blended entities:				
University of Nebraska Facilities Corporation:				
Series 2017 (UNMC Global Center Project)	2.00 - 5.00%	$1,015 - 13,795	$ 59,010	$ -
Series 2017 (Student Health and College of Nursing)	0.90 - 5.00%	145 - 2,245	18,520	-
Series 2016 (Deferred Maintenance Project)	3.00 - 5.00%	9,445 - 10,690	40,400	40,400
Series 2016 (UNMC Cancer Center)	1.00 - 5.00%	2,070 - 3,930	35,280	35,280
Series 2016 (UNMC Utility Project)	1.75 - 5.00%	1,220 - 1,590	12,400	13,635
Series 2015 (Veterinary Diagnostic Project)	3.00 - 4.00%	2,680 - 4,895	16,815	16,815
Series 2015 (UNO Arena and UNL CBA Project)	2.00%	180 - 6,825	25,110	27,425
Series 2015 (UNMC Cancer Center)	4.25%	175 - 200	1,875	1,875
Series 2014A (UNMC Cancer Center)	4.00 - 5.00%	3,415 - 17,410	65,965	65,965
Series 2014B (Qualified Energy Conservation Bonds)	2.50 - 4.25%	370 - 510	4,325	4,325
Series 2013 (UNMC Cancer Center)	4.00%	6,710 - 6,980	13,690	22,065
Series 2013A & B (UNO/Community Facility Project)	1.64 - 5.00%	830 - 23,055	40,945	49,545
Series 2011 (Eye Institute)	4.59%	14,740	14,740	14,740
Series 2011 (NCTA Education Center)	3.00% - 5.50%	85 - 1,645	7,525	8,125
Series 2009 (LB605)	4.59 - 4.66%	6,670	6,670	14,200
Series 2003 (Alexander Building Project)	4.45 - 5.00%	155 - 205	1,245	1,395
Series 2010 (OPPD Exchange Project)			-	1,535
Series 2006 (LB605)			-	9,500
Series 2004 (Library Storage Project)			-	2,035
Total University of Nebraska Facilities Corporation			364,515	328,860

(Continued)

(Thousands)

Obligations of blended entities (Continued):				
Nebraska Utility Corporation (NUCorp):				
Series 2010 revenue bonds	1.00 - 5.00%	1,350 - 2,035	7,760	9,050
Series 2014A revenue bonds	3.40%	6,500	6,500	6,500
Series 2014B revenue bonds	5.00%	5,500	5,500	5,500
Total NUCorp			19,760	21,050
Subtotal bonds payable			851,640	826,625
Add unamortized bond premium			61,038	47,959
Less unamortized bond discount			358	1,026
Total bond obligations payable			$ 912,320	$ 873,558

Annual maturities subject to mandatory redemption at June 30, 2017, are as follows:

	MTI		UNFC		NUCorp		Total University	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 17,350	$ 19,064	$ 65,830	$ 14,387	$ 1,350	$ 842	$ 84,530	$ 34,293
2019	19,575	18,407	52,660	12,042	1,420	773	73,655	31,222
2020	20,185	17,748	40,625	10,060	1,440	702	62,250	28,510
2021	19,370	16,985	59,695	8,491	1,515	628	80,580	26,104
2022	20,065	16,256	23,975	6,250	2,035	543	46,075	23,049
2023-2027	102,610	66,736	77,605	17,937	-	2,481	180,215	87,154
2028-2032	101,700	45,350	41,700	4,240	-	2,481	143,400	52,071
2033-2037	85,590	27,014	2,425	112	12,000	248	100,015	27,374
2038-2042	58,190	10,315	-	-	-	-	58,190	10,315
2043-2047	22,730	1,710	-	-	-	-	22,730	1,710
Total	$ 467,365	$ 239,585	$ 364,515	$ 73,519	$ 19,760	$ 8,698	$ 851,640	$ 321,802

At June 30, 2017 and 2016, the University and trustees for these bond funds held cash and investments in the amount of approximately $350,426 and $357,575, respectively, which is reflected as cash and cash equivalents, cash and cash equivalents held by trustee – restricted, and investments held by trustee – restricted on the statements of net position.

Master Trust Indenture

The Board of Regents entered into a Master Trust Indenture dated as of June 1, 1995, (as amended and supplemented from time to time, hereinafter the Indenture) with a fiduciary with respect to the facilities (including student housing, student unions, student health and recreational facilities, and parking facilities) from which the Board of Regents derives revenues, fees, and earnings. The Master Trust Indenture was created for the purpose of achieving lower borrowing costs through sharing accumulated excess revenues and earnings derived from such facilities. As of June 30, 2017, the members of the Obligated Group are (a) the student housing, student unions, student recreation, and student health facilities on the University of Nebraska - Lincoln campus (UNL Student Fees and Facilities), (b) the parking facilities on the University of Nebraska - Lincoln campus (UNL Parking); (c) the student center and HPER facility at the University of Nebraska at Omaha (UNO Facilities); (d) certain student housing and parking facilities at the University of Nebraska at Omaha (UNO Student Housing and Parking); (e) certain student housing facilities at the University of Nebraska Medical Center (UNMC Student Housing); and (f) the student housing facilities on the University of

Nebraska at Kearney campus (UNK Student Facilities). The accumulated surplus revenues, fees, and other payments of the members have been jointly pledged to the payment of revenue bonds issued with respect to such facilities. Other facilities will be added to the Obligated Group and the revenues, fees, and other payments derived from such facilities will be pledged under the Indenture in the future as circumstances permit.

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

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

MTI Bond Issuances

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

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

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

On December 3, 2015, the Board of Regents issued $44,380 of University of Nebraska at Omaha Revenue and Refunding Bonds, Series 2015 (Student Facilities Project). The net proceeds of the bonds, together with other funds, were used to defease the redemption of $25,685 of University of Nebraska at Omaha Student Facilities Project Bonds, Series 2007 dated July 25, 2007 maturing on or after July 1, 2015, and to pay for a portion of constructing a parking garage on campus. The refunding reduced total debt service payments by approximately $3,921 and resulted in an economic gain of approximately $2,836. The accounting loss of $1,203 is deferred and amortized over the life of the 2015 Bonds.

On September 10, 2015, the Board of Regents issued $11,220 of University of Nebraska-Lincoln Parking Bonds, Series 2015. The net proceeds of the bonds, together with other funds available, were used for the redemption of $13,760 of Series 2005 Bonds dated July 6, 2005 maturing on or after July 1, 2015. The refunding reduced total debt service payments by approximately $1,357 and resulted in an economic gain of approximately $1,295.

University of Nebraska Facilities Corporation

The UNFC bonds are not obligations of the State of Nebraska and no tax shall ever be levied to raise the funds for the principal payment thereof or the interest or premium thereon, and the UNFC bonds do not constitute debt of the Board of Regents of the University of Nebraska but shall be payable solely out of moneys derived from designated tuition revenues, legislative appropriations, donor gifts, and UNL and UNMC lease payments. The Board has pledged certain cash balances toward debt service on the bonds should sufficient revenues not be available. Pledged cash balances were $528,053 and $550,025 at June 30, 2017 and 2016 respectively.

UNMC Global Center Project Bonds ("Global Center") – In 2017, UNFC authorized the issuance of $59,010 UNMC Global Center Project Bonds, Series 2017 dated February 15, 2017.

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

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

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

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

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

Deferred Maintenance Refunding Bonds (“The 2016 Project”) – In 2016, the UNFC authorized the issuance of $40,400 of Deferred Maintenance Refunding Bonds, Series 2016 dated June 9, 2016.

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

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

UNMC Utility Improvements Projects ("UNMC Utility Projects") – In 2016, the UNFC authorized the issuance of $13,635 of UNMC Utility Improvement Projects Bonds, Series 2016 dated March 17, 2016.

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

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

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

The proceeds of the Series 2016 bonds were used to construct, equip, and furnish a comprehensive cancer center that is a portion of the larger Fred and Pamela Buffett Cancer Center with an overall budget of $370,000 at the University of Nebraska Medical Center.

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

UNL Veterinary Diagnostic Center ("Diagnostic Center") – In 2016, the UNFC authorized the issuance of $16,815 of UNL Veterinary Diagnostic Center Bonds, Series 2015 dated November 5, 2015.

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

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

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

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

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

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UNMC Cancer Research Center Project ("Cancer Center") – In 2015, the UNFC authorized the issuance of $1,875 of UNMC Qualified Energy Conservation Bonds (Direct Pay), Taxable Series 2015, dated January 15, 2015.

The proceeds of the Series 2015 Bonds provide financing for the Energy Management and Monitoring Systems and Central Utility Plan Upgrades at the University of Nebraska Medical Center.

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

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

The proceeds of the Series 2014A Bonds will be used for the Series 2014A Project that consists of the construction, equipping, and furnishing of the aforementioned Cancer Center Project. The Series 2014B Project consists of financing upgrades to energy management monitoring systems in and for UNMC buildings. The total cost of the Series 2014B project is approximately $6 million.

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

UNMC Cancer Research Center ("Cancer Center") – In 2013, the UNFC authorized the issuance of $31,205 of Series 2013 Bonds, dated June 11, 2013.

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

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

The Bonds are not redeemable prior to maturity. The Cancer Center Project provides that if, at any time, the assigned pledge receipts are insufficient to pay principal and interest of the Series 2013 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

UNO/Community Facility ("Arena") – In 2014, the UNFC authorized the issuance of $37,385 of Series 2013A Bonds and $16,545 of Series 2013B Bonds, both dated November 30, 2013.

The Arena consists of construction, equipping, and furnishing of a sports and events arena located on the UNO campus at cost of approximately $87,900. The Series 2013A proceeds provide long term financing for the Arena payable from revenues derived from the use of the facility. The Series 2013B proceeds provide interim financing for approximately $16,545 of donor pledges and other available funds.

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Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Board of Regents of the University of Nebraska. The Series 2013A Bonds maturing on or after May 15, 2024 are redeemable at par plus accrued interest. The Series 2013B Bonds are not redeemable prior to their stated maturities.

UNMC Eye Institute Project ("Eye Institute") – In 2011, the UNFC authorized the issuance of $17,740 of Series 2011 Bonds, dated June 22, 2011.

The Eye Institute Project consists of the construction of the Eye Institute at the University of Nebraska Medical Center at a cost of approximately $20,000. Bond proceeds provide interim financing for approximately $18,000 of donor pledge payments. The remainder of the project will be funded by other University sources.

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

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

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

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

Deferred Maintenance Project ("The 2009 Maintenance Project") – UNFC authorized the issuance of $52,055 Deferred Maintenance Bonds, Series 2009 Bonds, dated December 8, 2009.

The 2009 Maintenance Project represents planned continuation financing of deferred maintenance projects initiated and partially financed by the 2006 Project. The 2006 Project was created to pay the construction costs for major renewal and renovation projects at each of the four University campuses.

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specified tuition revenues. The Bonds are not redeemable prior to maturity.

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

The 2003 Project involved the purchase and refurbishing of the Alexander Building, including a heating, ventilation, and air conditioning project on the city campus of UNL.

Principal and interest payments will come from lease payments received from UNL. Bonds are redeemable at par plus accrued interest. The 2003 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2003 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

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(Thousands)

Nebraska Utility Corporation

In 2011, the NUCorp issued Series 2010 Bonds in the amount of $15,120 to refund $17,065 of outstanding Series 2001 Bonds. The net proceeds of $16,932 plus $2,181 of sinking fund moneys were used to prepay the outstanding debt service requirements on the 2001 bonds. The proceeds were used to purchase securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 bonds.

The Series 2014A and 2014B bonds were issued as Qualified Energy Conservation Bonds (QECB) under provisions of the Internal Revenue Code. NUCorp expects to receive a cash subsidy payment from the United States Treasury equal to 70% of the interest payable on the Series 2014A and 2014B bonds. The subsidy payment is contingent on Federal regulations and is subject to change. NUCorp received a subsidy of $382,939 and $383,350 during the years ended June 30, 2017 and 2016, respectively.

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, 2017 and 2016, the University, UNFC, and NUCorp are in compliance with these requirements.

I. CAPITAL LEASE OBLIGATIONS

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2017	$ 48,523	$ 1,326	$ 719	$ 49,130	$ 234
2016	$ 12,398	$ 36,667	$ 542	$ 48,523	$ 432

(Thousands)

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

	Buildings and Properties	Equipment	Total
2018	$ 4,176	$ 269	$ 4,445
2019	4,202	270	4,472
2020	4,223	197	4,420
2021	4,239	193	4,432
2022	4,249	10	4,259
2023-2027	21,150	-	21,150
2028-2032	23,573	-	23,573
2033-2037	26,967	-	26,967
2038-2042	29,774	-	29,774
2043-2047	19,480	-	19,480
	142,033	939	142,972
Less interest and executory costs	93,766	76	93,842
	$ 48,267	$ 863	$ 49,130

Capital assets held under capital lease obligations at June 30, 2017, are as follows:

	Cost	Accumulated Depreciation	Net
Buildings	$ 48,572	$ 3,200	$ 45,372
Equipment	1,145	179	966
	$ 49,717	$ 3,379	$ 46,338

(Thousands)

J. HEALTH AND OTHER INSURANCE CLAIMS

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

	Self-Insurance	General Liability	Health and Dental	Total
Claim reserve, July 1, 2015	$ 3,975	$ 2,439	$ 7,904	$ 14,318
Incurred claims	620	1,174	151,593	153,387
Payments on claims	(1,485)	(1,124)	(150,515)	(153,124)
Claim reserve, June 30, 2016	3,110	2,489	8,982	14,581
Incurred claims	-	1,792	148,530	150,322
Payments on claims	(1,360)	(1,455)	(149,327)	(152,142)
Claim reserve, June 30, 2017	$ 1,750	$ 2,826	$ 8,185	$ 12,761

The Board of Regents provides for protection against comprehensive general liability and property losses through a partially self-insured general liability program. The self-insured program also covers the retained deductible for directors and officers liability and miscellaneous claims not covered by insurance. The Board of Regents has purchased all-risk "blanket" policies for risks not covered by the partially self-insured general liability program. These policies provide for $1,250,000 in property coverage with a $500 per occurrence deductible and $1,000 aggregate deductible, $5,000 in educators legal liability coverage with a $1,000 per claim deductible, and $20,000 in umbrella excess liability coverage with a $1,000 per occurrence deductible and $3,000 aggregate deductible. A bank administers the general liability and self-insured trusts including the investments and payment of approved claims. The University estimates a range of loss for general liability and property claims using actuarial studies conducted by outside actuarial firms. The discount rate used by the actuaries for estimation of the claim reserve was 1.5% for general liability. This estimate is accrued in the accompanying financial statements and includes a reserve for known claims as well as incurred but unreported incidents.

The University participates in the State Excess Liability Fund that provides coverage from $500 up to $2,250 for each medical malpractice claim. Settled claims have not exceeded insurance coverage in any of the past three years.

The Board of Regents provides for faculty and staff group health and dental benefits through a self-insurance program. The University accrued an estimate for known as well as incurred but not reported claims based on claim history adjusted for current trends. A trust agreement with a bank provides for the collection, investment, and administration of premiums and for payment to the third-party administrators for claims paid.

At June 30, 2017 and 2016, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately $103,944 and $107,654, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents and investments – restricted on the statements of net position.

(Continued)

(Thousands)

K. RETIREMENT PLANS

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

The University's total payroll for fiscal years 2017 and 2016 was approximately $1,025,102 and $983,949, respectively, of which approximately $764,859 and $730,264 was covered by the plan. The University's contribution during 2017 and 2016 was approximately $59,653, or 7.80%, and $56,902, or 7.79%, of covered payroll, respectively, and the faculty and staff's contribution was approximately $40,054, or 5.24%, and $38,176, or 5.23%, of covered payroll, respectively.

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

L. COMMITMENTS AND CONTINGENCIES

The University has contracted for the construction of facilities that are estimated to cost approximately $514,543. As of June 30, 2017, the approximate remaining costs to complete these facilities were $249,964, which will be financed as follows:

Bond funds	$ 134,776
Federal Funds	16,723
University funds	42,455
State capital appropriations	20,625
Private gifts, grants, and contracts	35,385
	$ 249,964

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

The University established its Agricultural Research and Development Center (ARDC) on approximately 9,000 acres acquired from the Nebraska Ordnance Plant (NOP) from 1962 to 1971. The Federal government produced munitions at NOP during World War II and the Korean Conflict, exposing the area to contaminants. The University legally disposed of certain materials at the site in the 1970s.

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In 1990, the NOP became a Federal Superfund site. An administrative order has been entered into between the Board of Regents and the Environmental Protection Agency (EPA) requiring a remedial investigation/feasibility study to determine the extent of contamination and removal actions necessary. This study was completed and the consulting firm made recommendations to the University for the removal and disposal of the contaminants at the site.

The Board of Regents and the EPA subsequently agreed to an action for the remediation and restoration of the area, which was completed pending acceptance of the final remedial investigation feasibility study report by the EPA. In 2011, the University received a proposed plan from the EPA for additional remedial activities, such as installation of a landfill cap, an establishment of a monitoring well network, and treatment for a groundwater contaminant. In 2013, the EPA submitted a record of decision of an approved remedy and, in 2014, the University and the EPA signed a consent decree and statement of work to complete the remediation work, which decree was approved by the United States District Court in June 2015. The University and its consultant are currently coordinating with the EPA to finalize work plans which will define the scope of remediation activities required by the EPA at the site. A liability has not been recorded since the cost remains an indeterminate amount.

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

M. RELATED-PARTY TRANSACTIONS

The University routinely has transactions with Nebraska Medicine (NM). The members of the faculty at the University are also members of the medical staff of NM, and in many other areas, the operations of the University and NM are integrated and overlap. The University provides certain operational and support services, as well as certain direct financial support to NM. For the fiscal years ended June 30, 2017 and 2016, NM purchased approximately $26,015 and $38,469 of goods and services from UNMC. In addition, during 2017 and 2016, UNMC paid NM $15,137 and $13,500, respectively, for support services provided by NM.

(Thousands)

N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2017:

	Compen-sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi-cations	Scholarships and Fellowships	Deprecia-tion	Total
Instruction	$ 495,550	$ 38,866	$ 14,624	$ 2,763	$ 58	$ 2,400	$ 6,102	$ -	$ 560,363
Research	223,446	69,556	50,611	4,570	1,035	1,176	1,832	-	352,226
Public service	67,179	17,267	18,691	1,247	256	836	584	-	106,060
Academic support	120,014	38,299	3,006	1,767	28	(4,803)	176	-	158,487
Student services	26,874	6,843	1,829	160	-	341	389	-	36,436
Institutional support	95,386	19,931	12,197	968	75	1,162	93	-	129,812
Operation and maintenance of plant	44,082	1,987	4,695	53,261	32,045	560	-	-	136,630
Healthcare entities	58,165	8,021	12,401	805	20	595	1,785	-	81,792
Scholarships and fellowships	7,532	351	116	2	-	2	52,464	-	60,467
Auxiliary operations	125,388	112,076	29,887	2,267	(211)	9,356	5,214	-	283,977
Depreciation	-	-	-	-	-	-	-	120,111	120,111
Total expenses	$ 1,263,616	$ 313,197	$ 148,057	$ 67,810	$ 33,306	$ 11,625	$ 68,639	$ 120,111	$ 2,026,361

(Thousands)

For the year ended June 30, 2016:

	Compen-sation	Supplies and Materials	Contractual Services	Repairs and Maintenance	Utilities	Communi-cations	Scholarships and Fellowships	Deprecia-tion	Total
Instruction	$ 467,394	$ 39,183	$ 10,491	$ 2,537	$ 3	$ 2,225	$ 4,593	$ -	$ 526,426
Research	213,045	66,312	48,922	6,819	848	1,271	1,622	-	338,839
Public service	79,646	16,928	20,540	394	329	918	359	-	119,114
Academic support	116,242	30,777	232	731	35	(914)	296	-	147,399
Student services	26,193	5,718	1,152	616	1	339	301	-	34,320
Institutional support	97,044	19,696	12,701	(231)	72	1,402	50	-	130,734
Operation and maintenance of plant	43,835	3,290	4,968	40,981	31,264	570	-	-	124,908
Healthcare entities	52,532	7,884	10,849	610	24	264	1,187	-	73,350
Scholarships and fellowships	7,618	312	69	17	-	-	50,816	-	58,832
Auxiliary operations	117,708	113,030	26,543	5,419	(176)	4,392	4,376	-	271,292
Depreciation	-	-	-	-	-	-	-	115,216	115,216
Total expenses	$ 1,221,257	$ 303,130	$ 136,467	$ 57,893	$ 32,400	$ 10,467	$ 63,600	$ 115,216	$ 1,940,430

O. AUXILIARY SEGMENT

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

UNL Student Fees and Facilities Bonds, Series 2009B, Series 2011, Series 2012, Series 2012B, Series 2015A, and Series 2016A – These bonds are used to provide student housing and related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consist primarily of room and board charges.

University of Nebraska – Lincoln Parking Revenue Bonds, Series 2009A, Series 2009B, Series 2013 and Series 2015 – These bonds are used to provide parking-related facilities as allowed by the bond covenants for the UNL campus. Operating revenues consist of parking fee revenues.

UNO Student Facilities Bonds, Series 2015B and 2016B – These bonds are used to provide a variety of services for the benefit of the University and its students in the Student Center and to provide health, physical education, and recreation services in the HPER building.

UNO Student Housing/Parking Bonds, Series 2010A, Series 2010B, Series 2014 and Series 2015 – The bonds are used to provide student housing, parking, and related facilities as allowed by the covenants for the University. Operating revenues consist primarily of rentals, student fees, and parking fees.

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

Pledges pertaining to these issues are disclosed in Note H.

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

	June 30, 2017	June 30, 2016
Condensed Statements of Net Position		
Assets and Deferred Outflows of Resources		
Assets:		
Current assets	$ 78,612	$ 90,595
Non-current assets:		
Capital assets	553,121	505,115
Other non-current assets	135,700	162,097
Total assets	767,433	757,807
Deferred Outflows of Resources:		
Deferred loss on bond refunding	16,228	7,094
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current liabilities	48,768	51,827
Non-current liabilities	483,882	485,280
Total liabilities	532,650	537,107
Deferred Inflows of Resources:		
Deferred service concession arrangement receipts	5,503	5,320
Net Position:		
Net investment in capital assets	77,800	46,727
Restricted:		
Expendable:		
Plant construction	26,258	35,782
Debt service	113,284	113,744
Unrestricted	28,166	26,221
Total net position	$ 245,508	$ 222,474

(Thousands)

	Years Ended June 30, 2017	Years Ended June 30, 2016
Condensed Statements of Revenues, Expenses, and Changes in Net Position		
Operating revenues	$ 140,275	$ 135,940
Operating expenses:		
Depreciation	(18,014)	(19,217)
Other operating expenses	(91,719)	(84,622)
Operating income	30,542	32,101
Non-operating expense	(7,508)	(5,448)
Change in net position	23,034	26,653
Net position, beginning of year	222,474	195,821
Net position, end of year	$ 245,508	$ 222,474

	Years Ended June 30, 2017	Years Ended June 30, 2016
Condensed Statements of Cash Flows		
Net cash flows from operating activities	$ 47,357	$ 51,072
Net cash flows from capital and related financing activities	(86,913)	(48,950)
Net cash flows from investing activities	12,831	5,286
Net change in cash and cash equivalents	(26,725)	7,408
Cash and cash equivalents, beginning of year	218,514	211,106
Cash and cash equivalents, end of year	$ 191,789	$ 218,514

P. SUBSEQUENT EVENTS

On August 11, 2017, UNFC authorized the issuance of deferred maintenance bonds in one or more series not to exceed in the aggregate a total of $200,000 dated the date or dates to be determined by UNFC. On October 3, 2017, $77,335 of bonds were issued under this authority. This new issuance authorized by the Nebraska One Hundred Fourth Legislature (LB957) extends the University's deferred maintenance initiative. Funding to repay the bonds include a capital appropriation and designated tuition revenue. In the same bond authorization, UNFC authorized the refinancing of the UNO Community Arena Bonds, Series 2013A. On October 3, 2017, $35,800 of bonds were issued under this authority.

On December 4, 2017, the Board of Regents issued $15,120 Revenue Refunding Bonds, Series 2017A (University of Nebraska at Omaha Student Housing Project) and $10,960 Revenue Refunding Bonds, Series 2017B (University of Nebraska at Omaha Student Housing Project). The proceeds from the sale of the Series 2017A and Series 2017B Bonds will be used, together with other funds available, to advance refund $15,405 of the Board's Revenue Bonds, Series 2010B (University of

Nebraska at Omaha Student Housing Project) and $12,345 of the Board's Revenue Bonds, Series 2010 (University of Nebraska at Omaha Student Housing Project), respectively.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 11, 2017, the date at which the financial statements were available to be issued.

Q. UNIVERSITY OF NEBRASKA FOUNDATION

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

Although the University does not control the timing or amount of receipts from the Foundation, the resources that the Foundation holds and invests, or the income thereon, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation are primarily used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements. Based on the Foundation's audited financial statements as of June 30, 2017 and 2016, the Foundation's net assets (including unrealized gains) totaled $1,948,432 and $1,844,708, respectively.

During the years ended June 30, 2017 and 2016, the Foundation contributed $93 million and $100 million, respectively, to the University for academic support, student assistance, faculty assistance, research, museums, and libraries. In addition, the Foundation provided capital gifts of $100 million and $106 million during 2017 and 2016, respectively, to the University. These contributions provided support for several projects, including the construction of the UNMC Cancer Center Projects and several UNL Athletics Capital Projects.

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

R. COMPONENT UNIT DISCLOSURES

(1) Summary of Significant Accounting Policies

(a) Nature of the Entity and Principles of Consolidation

The University of Nebraska Foundation (the Foundation) is a nonprofit corporation whose purpose is to provide financial support to the University of Nebraska system. The accompanying consolidated financial statements include the Foundation's wholly owned subsidiary, UNF Investments, LLC, and UNF Charitable Gift Fund (UNFCGF). All significant intercompany accounts and transactions have been eliminated upon consolidation.

(b) Basis of Accounting and Presentation

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

(Continued)

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

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

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and any other assets or liabilities are reported as increases (decreases) in unrestricted net assets unless their use is limited by donor stipulation or by laws. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets. At times, the Foundation receives requests by donors or their designees to change the use for which the gifts were originally intended. The requests are reviewed by the Foundation for approval. Approved changes, depending on the donor's request, may result in the reclassification due to change in donor intent in the consolidated statements of activities.

(c) Cash and Cash Equivalents

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

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

(d) Gifts, Bequests, and Life Insurance Proceeds

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

(e) Investments and Temporary Investments

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

For alternative investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate funds, commingled funds, and similar funds, the Foundation records these investments using net asset value per share or its equivalent as a practical expedient to fair value. These investments in limited partnerships are generally valued based upon the most recent net asset value or capital account information available from the general partner of the limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value.

Investments in closely held stock are recorded at fair value which is estimated based on independent appraisals and information provided by the respective companies.

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

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

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

Included in investment income is a management fee charged to accounts within each net asset class for which the Foundation manages investments. This management fee is charged based on the market value and type of investments managed. These fees are used for the administration of the Foundation's management and fund-raising operations. During the years ended June 30, 2017 and 2016, $20,465 and $20,225, respectively, was charged to temporarily restricted investment income and credited to unrestricted investment income in the consolidated statements of activities related to the management fee for endowment funds. Also included in unrestricted investment income in the consolidated statements of activities for the years ended June 30, 2017 and 2016, is $5,173 and $5,380, respectively, of a management fee charged to agency funds.

(f) Property and Equipment

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

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

(g) Deposits Held for Others

Deposits held for others represent funds held in a fiduciary capacity. The transactions of these funds are not reflected in the consolidated statements of activities as the Foundation is acting as an agent for these funds. Such funds approximated $326 million and $300 million at June 30, 2017 and 2016 and were held on behalf of the University of Nebraska and other related entities.

(h) Fair Value of Financial Instruments

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

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

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

(i) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation believes it is no longer subject to incomes tax examinations for years prior to 2013. During 2017 and 2016, management determined that there are no income tax positions requiring recognition in the consolidated financial statements.

(j) Use of Estimates

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

(2) Fair Value Investments

The Foundation utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

(Thousands)

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

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

The tables below present the balances of assets measured at June 30, 2017 and 2016 at estimated fair value on a recurring basis.

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Certificates of deposit, savings, and money market funds	$ 15,228	$ 15,148	$ 80	$ –
U.S. government securities and sovereign debt	35,348	–	35,348	–
State government securities	156	–	156	–
Local government securities	124	–	124	–
International bonds	20,055	–	20,055	–
Corporate bonds	65,938	–	65,938	–
Common stock	504,238	477,074	–	27,164
Mutual funds – equity	83,356	83,356	–	–
Mutual funds – fixed income	133,266	133,266	–	–
Preferred stock	688	–	688	–
Commingled funds – public equity	282,828	–	282,828	–
Commingled funds – diversified real assets	35,098	–	35,098	–
Index funds – commodities	12,782	12,782	–	–
Index funds – public equity	219,964	219,964	–	–
Investments measured at net asset value [1]:				
Hedge funds	154,095	–	–	–
Limited partnerships	62,878	–	–	–
Temporary Investments:				
U.S. treasuries	110,880	–	110,880	–
Certificates of deposit and money funds	66,950	66,950	–	–
State government securities	37,241	–	37,241	–
Local government securities	48,143	–	48,143	–
Corporate bonds	85,027	–	85,027	–
Exchange traded funds – income	24,926	24,926	–	–
Total	$ 1,998,939	$ 1,033,196	$ 721,606	$ 27,164

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 and 2016
(Thousands)

	2016			
	Total	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit, savings, and money market funds	$ 14,746	$ 14,662	$ 84	$ –
U.S. government securities and sovereign debt	30,691	–	30,691	–
State government securities	241	–	241	–
Local government securities	639	–	639	–
International bonds	18,498	–	18,498	–
Corporate bonds	72,085	–	72,085	–
Common stock	459,308	435,551	–	23,757
Mutual funds – equity	83,947	83,947	–	–
Mutual funds – fixed income	135,565	135,565	–	–
Preferred stock	564	–	564	–
Commingled funds – public equity	187,168	–	187,168	–
Commingled funds – diversified real assets	35,870	–	35,870	–
Index funds – commodities	14,081	14,081	–	–
Index funds – public equity	247,363	247,363	–	–
Investments measured at net asset value (1):				
Hedge funds	135,735	–	–	–
Limited partnerships	50,795	–	–	–
Temporary Investments:				
U.S. treasuries	118,257	–	118,257	–
Certificates of deposit and money funds	892	157	735	–
State government securities	40,028	–	40,028	–
Local government securities	59,901	–	59,901	–
Corporate bonds	106,658	–	106,658	–
Exchange traded funds – equity	28,451	28,451	–	–
Total	$ 1,841,483	$ 959,777	$ 671,419	$ 23,757

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

The policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. There were no transfers between levels during the years ended June 30, 2017 and 2016.

(Thousands)

The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Balance, June 30, 2015	$	22,614
Net unrealized gains		1,143
Balance, June 30, 2016		23,757
Net unrealized gains		3,407
Balance, June 30, 2017	$	27,164

(3) Investments

Investments consist of the following at June 30, 2017 and 2016:

	2017	2016
Investments stated at fair value:		
Certificates of deposit, savings, and money market funds	$ 15,228	$ 14,746
U.S. government securities and sovereign debt	35,348	30,691
State government securities	156	241
Local government securities	124	639
International bonds	20,055	18,498
Corporate bonds	65,938	72,085
Common stock	504,238	459,308
Mutual funds – equity	83,356	83,947
Mutual funds – fixed income	133,266	135,565
Preferred stock	688	564
Limited partnerships	62,878	50,795
Commingled funds – public equity	282,828	187,168
Commingled funds – diversified real assets	35,098	35,870
Index funds – commodities	12,782	14,081
Index funds – public equity	219,694	247,363
Hedge funds	154,095	135,735
Investments stated at other than fair value:		
Real estate	26,009	32,573
Real estate mortgage and contracts	2,218	3,860
Other	2,660	2,687
Cash value of life insurance	2,830	2,764
Annuity contracts	158	158
	$ 1,659,647	$ 1,529,338

(Continued)

(Thousands)

	2017	2016
Temporary investments stated at fair value		
U.S. treasuries	$ 110,880	$ 118,257
Certificates of deposit and money market funds	66,950	892
State government securities	37,241	40,028
Local government securities	48,143	59,901
Corporate bonds	85,027	106,658
Exchange traded funds – income	24,926	–
Exchange traded funds – equity	–	28,451
Temporary investments stated at other than fair value:		
Real estate	24	209
	$ 373,191	$ 354,396

The estimated value of real estate funds and limited partnerships was provided by the respective companies. For these alternative investments, the Foundation uses the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value at June 30, 2017 and 2016:

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

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

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

(Thousands)

	2016			
	Fair value	**Unfunded commitments**	***Redemption frequency (if currently eligible)**	**Redemption notice period**
Private equity/venture capital	$ 32,920	$ 39,310	N/A	N/A
Natural resources	6,311	9,983	N/A	N/A
Real asset funds	11,564	4,673	N/A	N/A
Hedge funds:				
Domestic long/short	26,922	–	q/sa/a	90-360 days
Global long/short	25,039	–	q/sa/a	90-360 days
Multiple strategies	52,325	–	q/sa/a	90-360 days
Credit strategies	31,449	–	q/sa/a	90-360 days
	$ 186,530	$ 53,966		

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

Included in hedge funds above, are two funds with rolling redemption periods, which as of June 30, 2016, approximately $16 million cannot be redeemed without fees for a period of at least 18 months. For private equity/venture capital and real asset funds, these investments cannot be redeemed with the investees, but instead the Foundation will receive distributions through the liquidation of the underlying assets of the investees. At June 30, 2016, the Foundation expects these funds to liquidate over the next 3-10 years.

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

(4) Pledges Receivable

Pledges receivable are recorded on the consolidated statements of financial position as assets net of an allowance for uncollectible accounts and discounted to their present value. Promises to give, net of discount to present value at 6% and allowance for doubtful accounts, are due to be collected as follows as of June 30, 2017 and 2016:

	2017	2016
Gross amount due in:		
One year or less	$ 84,634	$ 71,456
One to five years	131,195	182,157
More than five years	12,385	15,830
	228,214	269,443
Less discount to present value	19,964	28,606
	208,250	240,837
Less allowance for doubtful accounts	6,247	7,224
	$ 202,003	$ 233,613

(Continued)

(Thousands)

The discount will be recognized as contribution income in years 2018 through 2044.

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

(5) Property and Equipment

Property and equipment at June 30, 2017 and 2016 are as follows:

	2017	2016
Land	$ 8,314	$ 8,314
Buildings	40,650	40,498
Leasehold improvements	3,578	3,566
Automobiles	153	152
Furniture, equipment, and software	10,170	9,795
	62,865	62,325
Less accumulated depreciation	10,732	9,290
Net property and equipment	$ 52,133	$ 53,035

(6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. The value of split-interest agreements is measured as the Foundation's share of the assets. Liabilities associated with these agreements as of June 30, 2017 and 2016 are $19,167 and $18,779, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position.

(7) Net Assets

Net assets are restricted by donors for various purposes in support of activities at the University of Nebraska, including the campuses at Lincoln, Kearney, Omaha, and the Medical Center in Omaha. The purposes include scholarships, fellowships, research, academic support, and campus building and improvements. Included in temporarily and permanently restricted assets are the net assets of UNFCGF. The net assets of UNFCGF are restricted for distribution to qualified 501(c)(3) organizations, including the Foundation, at the request of the donor and approval by the Grants Committee of UNFCGF. Temporarily restricted net assets consist of gifts contributed for a specified period or until the occurrence of some future event or unspent earnings on endowed funds.

The amounts of the temporarily and permanently restricted net assets as of June 30, 2017 and 2016 are as follows:

	2017	2016
Temporarily restricted – charitable trusts and annuities	$ 25,740	$ 26,871
Temporarily restricted – available for specific purposes	941,118	922,442
Permanently restricted – endowment	968,067	921,694
	$ 1,934,925	$ 1,871,007

The Foundation had unrestricted net assets of $13,507 and $(26,299) at the end of 2017 and 2016, respectively. Net assets of $193,761 and $204,885 were released from donor restrictions during 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

(8) Endowments

The Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) sets out guidelines to be considered when managing and investing donor-restricted endowment funds.

The Foundation's endowment consists of approximately 5,100 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by U.S. generally accepted accounting principles, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

(1) the duration and preservation of the endowment fund

(2) the purposes of the Foundation and the donor-restricted endowment fund

(3) general economic conditions

(4) the possible effect of inflation or deflation

(5) the expected total return from income and the appreciation of investments

(6) other resources of the Foundation

(7) the investment policy of the Foundation

(Thousands)

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows:

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

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total net endowment assets**
Donor-restricted endowment funds	$ (58,899)	$ 304,084	$ 921,694	$ 1,166,879
Board-designated endowment funds	24,298	–	–	24,298
Endowment totals	$ (34,601)	$ 304,084	$ 921,694	$ 1,191,177

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

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

(Thousands)

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets, beginning of year	$ 7,391	$ 344,195	$ 881,038	$ 1,232,624
Change in reporting entity	(22)	309	200	487
Subtotal	7,369	344,504	881,238	1,233,111
Contributions	1,430	14,381	37,577	53,388
Investment income, net of expenses	–	1,560	–	1,560
Realized and unrealized gains (losses), net	(42,238)	(3,735)	–	(45,973)
Amounts appropriated for expenditure	(1,162)	(49,747)	–	(50,909)
Reclassification due to change in donor intent	–	(2,879)	2,879	–
Endowment net assets, end of year	$ (34,601)	$ 304,084	$ 921,694	$ 1,191,177

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

The Foundation has adopted investment and spending policies, approved by the Board of Directors of the Foundation, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity, debt securities, and illiquid alternative investments that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.25%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to earn a real (inflation-adjusted) rate of return of at least 5.5% per year net of investment management fees and transaction costs, when measured over rolling five-year period. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. The Foundation considers funds for which the fair value of the assets is less than the value of all original contributions to the fund to be "under water" funds. Deficiencies of this nature reported in unrestricted net assets were $(31,875) and $(58,899) as of June 30, 2017 and 2016, respectively. Funds of this nature result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs as

(Continued)

(Thousands)

deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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

The Foundation has a policy of appropriating for distribution each year 4.25% of the average fair market value of the prior 20 quarters. In establishing this policy, the Foundation considered the long term expected return on its investment assets, the nature, and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. This policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

(9) Lease Commitments

The minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2017 are as follows:

2018	$	849
2019		1,063
2020		1,073
2021		1,073
2022		1,073

(10) Notes Payable

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

(11) Retirement Plan

The Foundation sponsors a retirement plan that covers employees of the Foundation with one year of service who work in excess of 1,000 hours annually and have attained the age of 21 years or previous participation in the TIAA CREF or Fidelity annuity plan. Participation in the plan is mandatory upon attainment of age 30. The plan is an annuity arrangement under Section 403b(1) of the Internal Revenue Code using annuities under TIAA CREF and Fidelity Investments. Under the plan, the employee chooses to contribute either 5.5% or 3.5% of his/her salary to the plan and the Foundation matches the amount with either 8.0% or 5.5% of salary, respectively, unless grandfathered in under previous terms, which allowed for a 6.5% match instead of the 5.5%. The Foundation contributions to the plan for the years ended June 30, 2017 and 2016 were $954 and $854, respectively.

(12) Contingencies and Commitments

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

(13) Subsequent Events

In preparing the consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 29, 2017, the date the consolidated financial statements were available to be issued.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 11, 2017. Our report includes a reference to other auditors who audited the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group under the Master Trust Indenture, as described in our report on the University's financial statements. The financial statements of the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

University's Findings

We did note certain other matters that we reported to management of the University in a separate letter dated December 11, 2017.

Purpose of this Report

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

Mark Avery

Lincoln, Nebraska
December 11, 2017

Mark Avery, CPA
Audit Manager