

# ***The University of Nebraska***

*Basic Financial Statements and Additional Information  
for the Years Ended June 30, 2019 and 2018  
and Independent Auditors' Reports*

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**Modification of this document may change the accuracy of the original  
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**Issued on December 13, 2019**

# THE UNIVERSITY OF NEBRASKA

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## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### INDEPENDENT AUDITORS' REPORT

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

#### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2019 and 2018, 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, 6 percent, and 13 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2019, and 22 percent, 5 percent, and 12 percent, respectively, of the assets, net position, and revenues of the University at June 30, 2018. 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, 2019 and 2018, 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.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Lincoln, Nebraska  
December 13, 2019

Mark Avery, CPA  
Assistant Deputy Auditor



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## **Independent Auditors' Report**

The Board of Directors  
University of Nebraska Foundation:

We have audited the accompanying consolidated financial statements of the University of Nebraska Foundation (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 audits 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, 2019 and 2018, 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.



*Emphasis of Matter*

As discussed in note 1 to the consolidated financial statements, in 2019 the Foundation adopted new accounting guidance, ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

KPMG LLP

Lincoln, Nebraska  
September 27, 2019

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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### Introduction

This discussion and analysis is designed to provide an overview of the financial position and activities of the University of Nebraska (the University) for the years ended June 30, 2019 and 2018. This analysis has been prepared by management of the University of Nebraska and it is intended to be read with the financial statements and related footnotes that follow this section.

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

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

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

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



# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

Campus	Student Enrollment – Headcount				
	Fiscal Year				
	2015	2016	2017	2018	2019
UNL	25,390	25,772	26,239	26,396	26,155
UNMC	3,696	3,790	3,862	3,908	3,972
UNO	15,227	15,526	15,627	15,731	15,431
UNK	6,902	6,747	6,788	6,644	6,327
Total	51,215	51,835	52,516	52,679	51,885

The fall semester (fiscal 2019) headcount enrollment was 51,885 students on the four campuses. 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 12,937 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.** Net position of the University grew by \$201 million or 5% and is attributable to several factors. Invested in capital assets increased by \$87 million, due in part to a \$36 million building gifted from the Foundation. Plant construction increased \$5 million, while expendable debt service increased \$15 million. Additionally, unrestricted net position continued to grow and sits at \$1,182 million, an increase of \$100 million over the prior year. This increase was due to a variety of factors, including a \$48 million increase in equity of a joint venture investment.
- **New Capital Construction.** Investments in capital projects followed University priorities, with many of these projects coming courtesy of private support. The following endeavors align behind the educational, research, and public service missions and make the University more competitive in continuing to attract high caliber students and faculty.
  - Construction began on the Munroe-Meyer Institute building renovation at UNMC, with a total budget of \$55 million. Some of the features in this space will be a redesigned integrated Center for Autism Spectrum Disorders (iCASD), as well as a Caring For Champions Program, a collaboration with Special Olympics that will provide sustained vision, dental and weight management services.
  - Construction is progressing towards the Fall 2020 opening of the \$30 million STEM building at UNK, which will house seven academic departments in science, technology, engineering and math education fields. UNK is also finishing the Plambeck Early Childhood Education Center, a \$7 million center that will feature 11 classrooms to provide early education for up to 180 children.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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- At UNO, construction continued for the Biomechanics Research building addition. This project provides additional space, more than doubling the size of the existing building. It will include laboratories, instructional space, offices, and collaboration space for students and researchers. The total cost is approximately \$12 million. Construction also continued for the Arts and Sciences Hall renovation, a project with a total cost of \$12 million. Additionally, construction began on the Mammel Hall addition, with a total projected cost of \$17 million.
- At UNL, work continues on the East Union renovation, with a budget of about \$28.6 million. Additional projects include the Carson Center for Emerging Arts, a \$10.9 million building renovation, as well as a new Gymnastics facility with a budget of \$14 million.
- **Indebtedness.** Overall, bonded indebtedness increased in 2019 by approximately \$30 million on a base of \$926 million at June 30, 2018, the result of one new issue, net of maturities/calls:

One new issue was marketed by UNFC:

- \$94 million of Deferred Maintenance Bonds, Series 2018 for continued renewal, renovation, and replacement projects on the four campuses of the University.

Financial performance in the operations financed by the Master Trust Indenture (MTI) bonds (unions, student residences, recreation facilities, and parking) led to strong debt coverage ratios of 1.63 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 1% increase in state support of University operations for 2019 compared to a 2% decrease in 2018 and a 3% increase in 2017. Tuition increased 3.2% and 5.4% in 2019 and 2018, respectively, compared to a 2.5% increase in 2017. This support, along with internal reallocations, permitted the University to provide a 2% increase in the salary pool for faculty and staff and to pay negotiated salary increases for UNO and UNK collective bargaining units.
- **Federal Grants and Contracts.** Revenues from Federal grants and contracts increased by 13% from 2019 to 2018 compared to a 7% increase from 2018 to 2017. 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 \$94 million in 2019 compared to \$55 million in 2018, and \$98 million in 2017. The largest increase in capital gifts resulted from the gift of a \$36 million office building from the Foundation. This building will be renovated for use of the Munroe-Meyer Institute at UNMC.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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### 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.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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

### Condensed Financial Statements and Analysis

#### Condensed Statements of Net Position

	June 30,		
	2019	2018	2017
<b>Assets and Deferred Outflows</b>			
Current assets	\$ 1,455,756	\$ 1,345,686	\$ 1,302,071
Capital assets, net of accumulated depreciation	2,878,778	2,797,199	2,768,094
Other non-current assets	1,245,658	1,167,883	1,063,152
Total assets	<u>5,580,192</u>	<u>5,310,768</u>	<u>5,133,317</u>
Deferred Outflows of Resources	<u>18,547</u>	<u>19,810</u>	<u>16,681</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>			
Current liabilities	478,233	450,922	446,543
Non-current liabilities	963,365	919,218	897,124
Total liabilities	<u>1,441,598</u>	<u>1,370,140</u>	<u>1,343,667</u>
Deferred Inflows of Resources	<u>15,192</u>	<u>19,785</u>	<u>19,486</u>
Net position:			
Net investment in capital assets	2,031,214	1,944,552	1,777,515
Restricted for:			
Nonexpendable:			
Permanent endowment	225,959	233,949	225,490
Expendable:			
Externally restricted funds	367,397	365,561	344,631
Loan funds	42,498	42,063	43,439
Plant construction	122,268	117,039	211,566
Debt service	170,249	155,395	145,500
Unrestricted	<u>1,182,364</u>	<u>1,082,094</u>	<u>1,038,704</u>
Total net position	<u>\$ 4,141,949</u>	<u>\$ 3,940,653</u>	<u>\$ 3,786,845</u>

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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

	Year Ended June 30,		
	2019	2018	2017
Operating Revenues:			
Tuition and fees	\$ 436,946	\$ 444,577	\$ 425,860
Federal grants and contracts - restricted	310,668	275,146	257,214
Private grants and contracts - restricted	201,716	180,070	187,662
State grants and contracts - restricted	38,087	39,309	39,792
Sales and services of educational activities	66,890	75,204	68,531
Sales and services of health care entities	22,359	26,210	27,437
Sales and services of auxiliary operations	218,807	216,244	176,981
Sales and services of auxiliary segments	124,057	122,603	125,625
Other operating revenues	17,975	13,746	12,956
Total operating revenues	1,437,505	1,393,109	1,322,058
Operating Expenses:			
Compensation and benefits	1,348,676	1,304,999	1,263,594
Supplies and services	566,237	563,282	567,470
Depreciation	142,862	139,408	120,111
Scholarships and fellowships	74,835	76,402	68,639
Total operating expenses	2,132,610	2,084,091	2,019,814
Operating Loss	(695,105)	(690,982)	(697,756)
Non-operating Revenues (Expenses):			
State of Nebraska non-capital appropriations	574,746	559,188	576,559
Federal grants	50,365	48,820	43,004
Gifts	100,997	96,442	101,192
Investment income	48,157	45,633	39,037
Interest on bond obligations	(35,621)	(32,758)	(24,044)
Equity in joint venture	48,870	36,243	36,784
Other non-operating revenues (expenses)	(10,811)	(2,432)	8,466
Net non-operating revenues	776,703	751,136	780,998
Income before Other Revenues, Expenses, Gains or Losses	81,598	60,154	83,242
Other Revenues, Expenses, Gains or Losses:			
State of Nebraska capital appropriations	21,266	36,182	32,497
Capital grants and gifts	94,393	55,213	98,506
Additions to permanent endowments	4,039	2,259	2,119
Net other revenues, expenses, and gains or losses	119,698	93,654	133,122
Increase in net position	201,296	153,808	216,364
Net position, beginning of year	3,940,653	3,786,845	3,570,481
Net position, end of year	\$ 4,141,949	\$ 3,940,653	\$ 3,786,845

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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***Analysis of Financial Position.*** Cash and cash equivalents represent the majority of current assets of the University and increased \$84 million in 2019, after a \$94 million increase in 2018 and a slight decrease in 2017.

Non-current assets of the University are led by the investment in capital assets. At June 30, 2019, total investment in capital assets was \$4.2 billion, yielding a net investment, after accumulated depreciation, of \$2.9 billion. The increase in capital assets was \$81 million, consisting of additions of \$224 million net of depreciation of \$143 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 UNO Biomechanics Research building addition, Strauss Performing Arts Center addition and renovation, the UNL Gymnastics facility, the Johnny Carson Center for Emerging Media Arts, the UNMC Munroe-Meyer Institute building renovation, 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 \$30 million in 2019 following increases of \$14 million and \$39 million in 2018 and 2017, respectively. Indebtedness issued was \$94 million in 2019 with \$153 million issued in 2018 and \$194 million issued in 2017. The individual bond issuances were recounted earlier in this discussion and in the debt activity portion of this communication.

The unrestricted net position of the University increased by 9% or \$100 million during the year to \$1.1 billion. Of this increase, \$48 million was due to the University's share in equity in a joint venture.

***Analysis of Operations – Overview.*** The University generated \$1,437 million of operating revenues during 2019, an increase of \$44 million over 2018, while operating expenses were \$2,133 million, up \$49 million over the prior year. These changes resulted in an increase in the operating loss of \$4 million to \$695 million in 2019 compared to losses of \$691 million and \$697 million for 2018 and 2017. 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 \$120 million in 2019 compared to similar "losses" of \$131 million in 2018 and \$121 million in 2017.

The Nebraska Legislature provided \$575 million in non-capital appropriations for 2019, an increase of \$16 million over 2018 following a decrease of \$17 million in 2017. The University, in conjunction with the Foundation, generated non-operating and capital gifts of approximately \$195 million that, when combined with all other non-operating revenues and expenses including investment income of \$48 million, netted an overall increase in net position of approximately \$201 million.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

**Revenues.** The following chart depicts the operating revenues for 2019 and 2018 and the comparative changes that occurred between those years.

	2019		2018		2019-2018 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Tuition and fees	\$ 436,946	30%	\$ 444,577	32%	\$ (7,631)	(2)%
Federal grants and contracts - restricted	310,668	22	275,146	20	35,522	13
Private grants and contracts - restricted	201,716	14	180,070	13	21,646	12
State grants and contracts - restricted	38,087	3	39,309	3	(1,222)	(3)
Sales and services of educational activities	66,890	5	75,204	5	(8,314)	(11)
Sales and services of health care entities	22,359	1	26,210	2	(3,851)	(15)
Sales and services of auxiliary operations	218,807	15	216,244	15	2,563	1
Sales and services of auxiliary segments	124,057	9	122,603	9	1,454	1
Other operating revenues	17,975	1	13,746	1	4,229	31
Total operating revenues	<u>\$ 1,437,505</u>	<u>100%</u>	<u>\$ 1,393,109</u>	<u>100%</u>	<u>\$ 44,396</u>	<u>3%</u>

The University's operating revenues increased in fiscal year 2019 by 3% or \$44 million. A three-year comparison of revenues for the years 2019, 2018, and 2017 is presented on page 11.

- The largest increases in revenue were realized in federal and private grants and contracts, which together increased \$57 million, a nearly 13% increase from the prior year. Federal grants were driven by a significant increase in the Ryan White HIV program activity at UNMC, while private grant increases are largely attributable to increased funding from Children's Hospital to assist with exponential growth in the pediatric departments at UNMC.

**Expenses.** The following chart shows the University's operating expenses for 2019 and 2018 and comparative changes that occurred between those years. A three-year comparison of operating expenses for the years 2019, 2018, and 2017 is presented on page 11.

	2019		2018		2019-2018 Change	
	Amount	% of Total	Amount	% of Total	Dollars	Percent
Compensation and benefits	\$ 1,348,676	63%	\$ 1,304,999	62%	\$ 43,677	3%
Supplies and services	566,237	27	563,282	27	2,955	1
Depreciation	142,862	7	139,408	7	3,454	2
Scholarships and fellowships	74,835	3	76,402	4	(1,567)	(2)
Total operating expenses	<u>\$ 2,132,610</u>	<u>100%</u>	<u>\$ 2,084,091</u>	<u>100%</u>	<u>\$ 48,519</u>	<u>2%</u>

Operating expenses increased by \$49 million for the 2019 fiscal year. Changes in the major expense classifications follow.

- Compensation and benefits increased by 3% in 2019, following a 3% increase in 2018 and a 4% increase in 2017. While the 2019 University salary pool was 2.0%, funding of strategic priorities and an increase in federal grant activity also contributed to the increase.

# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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**Non-Operating Revenues (Expenses).** Net non-operating revenues increased \$25 million during 2019 compared to 2018. Increases in non-capital state appropriations and equity in joint venture were the primary reasons for the increase.

Non-capital state appropriations increased \$16 million, due to a 1% increase in state funding. The University holds a 50% equity interest in Nebraska Medicine, a joint venture operation that generated \$49 million in non-operating revenues in 2019 for the University as compared to \$36 million in 2018.

**Other Revenues, Expenses, Gains, or Losses.** Net other revenues, expenses, gains, or losses increased by \$26 million. A \$39 million increase in capital gifts was the primary driver, offset by a decrease of \$15 million in State of Nebraska capital appropriations. Capital gifts increased mainly due to a \$36 million office building gift from the Foundation. The decrease in capital appropriations can be attributed to a \$12 million decrease in expenditures for the iEXCEL project at UNMC as it nears completion.

### Capital Assets

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

- At UNL, a new fourth-floor expansion was completed at Morrill Hall. This expansion to the University of Nebraska State Museum highlights Nebraska's natural history, looking at the state's ecosystems across multiple time scales, with a host of new and interactive exhibits.
- The Strauss Performing Arts Center addition and renovation was completed at UNO at a cost of approximately \$16 million. The new space will increase productivity and collaboration within the School of Music and the performance community. The renovation was needed to update current ADA, fire and life safety codes and rehabilitate interior spaces.
- UNMC completed the Skybridge connecting Truhlsen Eye Institute to Lauritzen Outpatient Center as a cost of approximately \$2 million. Other projects completed during the year included \$3.5 million of renovation costs at the College of Nursing building and the Central Utility Plant.
- At UNK, the Village Flats Housing project was completed at a cost of about \$16 million, providing UNK students with additional housing options. Additionally, the Student Union was renovated for approximately \$5 million.

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

### Debt Activity

**Bond Financings.** The University marketed one bond financing during 2019. This financing was issued through UNFC:

- In July 2018, UNFC issued \$94,275 of Deferred Maintenance Bonds, Series 2018 for continued renewal, renovation, and replacement projects on the four campuses of the University.

The Board of Regents of the University of Nebraska Members of the Obligated Group under the MTI has bonds outstanding from the construction of student housing, parking, student recreation, and student unions. The financial position of the MTI had operating income that provided a debt service ratio of 1.63 times for the year ended June 30, 2019, compared to 1.65 times for 2018 and 1.72 times in 2017. The debt service ratio required by the MTI covenants is 1.15 times.



# THE UNIVERSITY OF NEBRASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)

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UNFC met all debt service requirements during 2019. The State of Nebraska Legislature has reaffirmed and appropriated funds for their portion of the debt service pertaining to the Deferred Maintenance Projects, UNL Veterinary Diagnostic Center, the NCTA Education Center/Student Housing Project, and the UNL Health Center and College of Nursing Projects. The Foundation continues to receive funds from donor gifts pledged toward the funding of the UNO/Community Facility Refunding and the UNMC Cancer Center. 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 beginning on page 38 in the Notes to Financial Statements included in this report.

### **Economic Outlook and Subsequent Events That Will Affect the Future**

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

The 2019 session of the Nebraska Legislature included enactment of the State's two-year budget for fiscal years 2019-2020 and 2020-2021. At the beginning of the legislative session there were multiple demands on State funding including Medicaid expansion, health care provider rates, prison overcrowding, replenishing a depleted State cash reserve fund, and property tax relief. The Legislature's challenge was attempting to address all of these areas within the confines of available revenues.

The appropriations bill ultimately contained a 3.0% increase in 2019-2020 and a 3.7% increase in 2020-2021 for the University. In the enacted budget, these general increases are included at a level to cover estimates of salary and health insurance increased costs. Increased funds for salary were based on a 2.0% increase for bargaining units at UNO and UNK for faculty and the equivalent of 2.2% for all other employees. For health insurance, the University is anticipating increases of 3.2% on January 1, 2020 and 8.7% on January 1, 2021. The budget also includes funding for a 2% per year increase in utility costs.

The State's partnership is a key reason the University was able to hold tuition increases to an average of 2.75% over the next two years in 2019-2020 and 2020-2021. With the minimal increases, tuition rates at University of Nebraska campuses will continue to be well below those at peer institutions.

Yet then-President Hank Bounds noted that the University's State funding increases – coming on the heels of multiple rounds of cuts that have necessitated \$28 million in administrative and programmatic reductions – were not enough to cover all its needs. Adjusted for inflation, the University's spending will be flat or down for a second consecutive year. Flat spending produces challenges for investing in talent and workforce development necessary for future growth in the State. However, the University believes its partnership with the State, together with continued focus on operating efficiently, will promote affordable excellence for the people of the State.

Bounds said the University will continue to work together with policymakers and the private sector to address the needs of the State, including the 34,000 annual openings in high-skill, high-demand, high-wage jobs like nursing, engineering and accounting that will soon exist across Nebraska. Two-thirds of those jobs will require higher education, meaning continued investment in an accessible and competitive university is vital.

# THE UNIVERSITY OF NEBRASKA

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2019 and 2018 (UNAUDITED) (Columnar Amounts in Thousands)**

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The University will be undergoing a Presidential leadership change, as Bounds announced in the Spring of 2019 his intentions to leave the University effective August 2019. On December 5, 2019, the University of Nebraska Board of Regents voted to confirm Walter "Ted" Carter, VADM (Ret.), as the eighth president of the University of Nebraska system. Carter, the immediate past superintendent of the U.S. Naval Academy whose tenure included records in graduation rates and student diversity and a top national ranking by Forbes Magazine, will begin transition work as NU's president-elect on Dec. 16, 2019. He will assume overall leadership on Jan. 1 2020, succeeding Interim President Susan Fritz, Ph.D.

Carter, a Distinguished Flying Cross and Bronze Star recipient, brings extensive military service, having graduated from the Navy Fighter Weapons School (Top Gun) in Miramar, Calif. He was commander for the Carrier Strike Group Twelve, in which he commanded 20 ships, two nuclear-powered aircraft carriers and two carrier air wings that were deployed to Afghanistan and the Arabian Gulf. He is a naval flight officer with more than 6,300 flying hours, and has completed 2,016 carrier-arrested landings, an American record. Carter was superintendent of the U.S. Naval Academy in Annapolis, Md. from 2014 to 2019, the longest continuously serving superintendent in Annapolis.

During the leadership transition, the University continued to make and maintain investments in several key strategic initiatives. The Buffett Early Childhood Institute, the Water for Food Initiative, the Fred and Pamela Buffett Cancer Center, and the National Strategic Research Institute (NSRI) are just a few of the pillars supporting the University's strategic agenda. NSRI is the 14th University Affiliated Research Center (UARC) in the United States and only the second such entity in the Big Ten. A UARC is a specially designed entity that provides essential engineering and technology capabilities of particular importance to the U.S. Department of Defense. This enterprise will prove increasingly important in maintaining research pre-eminence in an era of flat/declining traditional Federal grants and contracts sources. It also assists in retaining key faculty assets in the research enterprise. In June of 2018, the University of Nebraska and the United States Strategic Command announced that NSRI has been renewed with a five-year, \$92 million contract from the U.S. Air Force.

The University of Nebraska continues to make important gains in expanding access to education and growing the diversity of its student body, providing reasons to celebrate even as enrollment dipped slightly in fall 2019, according to figures announced in the Fall of 2019 by Interim President Susan Fritz. Enrollment across the four NU campuses and the Nebraska College of Technical Agriculture is 51,150, a decline of 1.4 percent from last year's total of 51,885. This is the ninth straight year NU enrollment has topped 50,000, a streak that includes back-to-back record highs in 2016 and 2017. The university's graduating classes have grown steadily over time, with more than 11,000 new graduates now entering the workforce every year as NU focuses on meeting the economic needs of the state.

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 \$200 million in 2019, yielding a five-year total of over \$1 billion. This is greatly valued as it provides scholarships, professorships, and much needed capital project funding, the very things that will strategically power the University forward.

# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

(Thousands)

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

	2019	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 655,599	\$ 603,703
Cash and cash equivalents - restricted	327,059	322,480
Cash and cash equivalents held by trustee - restricted	96,374	68,992
Investments - restricted	145,786	148,374
Accounts receivable and unbilled charges, net	204,192	175,447
Loans to students, net	4,613	5,233
Other current assets	22,133	21,457
Total current assets	<u>1,455,756</u>	<u>1,345,686</u>
<b>NON-CURRENT ASSETS:</b>		
Cash and cash equivalents	-	1,508
Cash and cash equivalents - restricted	500	339
Cash and cash equivalents held by trustee - restricted	303,763	275,091
Investments - restricted	393,329	375,486
Investments held by trustee - restricted	7,731	12,871
Accounts receivable and unbilled charges, net	30,830	30,819
Investment in joint venture	483,410	443,182
Loans to students, net of current portion	25,597	28,045
Capital assets, net of accumulated depreciation	2,878,778	2,797,199
Other non-current assets	498	542
Total non-current assets	<u>4,124,436</u>	<u>3,965,082</u>
Total assets	<u>5,580,192</u>	<u>5,310,768</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred loss on bond refunding	<u>18,547</u>	<u>19,810</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	142,970	104,949
Accrued salaries and wages	49,760	48,035
Accrued compensated absences	54,686	51,725
Bond obligations payable	69,569	79,227
Capital lease obligations	273	288
Unearned revenues and other credits	147,890	152,438
Health and other insurance claims	13,085	14,260
Total current liabilities	<u>478,233</u>	<u>450,922</u>
<b>NON-CURRENT LIABILITIES:</b>		
Accrued salaries and wages, net of current portion	1	4
Accrued compensated absences, net of current portion	24,078	22,772
Bond obligations payable, net of current portion	886,550	847,120
Capital lease obligations, net of current portion	49,309	49,121
Unearned revenues and other credits, net of current portion	3,427	201
Total non-current liabilities	<u>963,365</u>	<u>919,218</u>
Total liabilities	<u>1,441,598</u>	<u>1,370,140</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred service concession arrangement receipts	14,848	19,143
Deferred gain on bond refunding	344	642
Total deferred inflows of resources	<u>15,192</u>	<u>19,785</u>
<b>NET POSITION:</b>		
Net investment in capital assets	2,031,214	1,944,552
Restricted for:		
Nonexpendable:		
Permanent endowment	225,959	233,949
Expendable:		
Externally restricted funds for scholarships, student aid, and research	367,397	365,561
Loan funds	42,498	42,063
Plant construction	122,268	117,039
Debt service	170,249	155,395
Unrestricted	<u>1,182,364</u>	<u>1,082,094</u>
Total net position	<u>\$ 4,141,949</u>	<u>\$ 3,940,653</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## UNIVERSITY OF NEBRASKA FOUNDATION

(A Component Unit of the University of Nebraska)

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

(Thousands)

(See Independent Auditors' Reports on Pages 1, 2, 3, 4, and 5)

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 33,092	\$ 48,769
Temporary investments	472,927	400,377
Pledges receivable	202,503	187,856
Other receivables	6,973	6,276
Investments	1,797,556	1,756,282
Property and equipment, net of depreciation	<u>4,587</u>	<u>50,456</u>
Total assets	<u>\$ 2,517,638</u>	<u>\$ 2,450,016</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 4,944	\$ 2,695
University of Nebraska payable	21,191	16,671
Note payable	—	17,559
Deferred annuities payable	16,448	16,644
Deposits held in custody for others	339,491	334,749
Deferred revenue	<u>—</u>	<u>2,725</u>
Total liabilities	<u>382,074</u>	<u>391,043</u>
<b>NET ASSETS:</b>		
Without donor restrictions	54,990	47,665
With donor restrictions	<u>2,080,574</u>	<u>2,011,308</u>
Total net assets	<u>2,135,564</u>	<u>2,058,973</u>
Total liabilities and net assets	<u>\$ 2,517,638</u>	<u>\$ 2,450,016</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (Thousands)

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

	2019	2018
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$165,080 and \$142,373 in 2019 and 2018, respectively)	\$ 436,946	\$ 444,577
Federal grants and contracts - restricted	310,668	275,146
Private grants and contracts - restricted	201,716	180,070
State and local grants and contracts - restricted	38,087	39,309
Sales and services of educational activities	66,890	75,204
Sales and services of health care entities	22,359	26,210
Sales and services of auxiliary operations	218,807	216,244
Sales and services of auxiliary segments (net of scholarship allowances of \$16,268 and \$15,054 in 2019 and 2018, respectively)	124,057	122,603
Other operating revenues	17,975	13,746
Total operating revenues	<u>1,437,505</u>	<u>1,393,109</u>
OPERATING EXPENSES:		
Compensation and benefits	1,348,676	1,304,999
Supplies and services	566,237	563,282
Depreciation	142,862	139,408
Scholarships and fellowships	74,835	76,402
Total operating expenses	<u>2,132,610</u>	<u>2,084,091</u>
OPERATING LOSS	<u>(695,105)</u>	<u>(690,982)</u>
NON-OPERATING REVENUES (EXPENSES):		
State of Nebraska non-capital appropriations	574,746	559,188
Federal Grants	50,365	48,820
Gifts	100,997	96,442
Investment income (net of investment management fees of \$6,034 and \$6,517 in 2019 and 2018, respectively)	48,157	45,633
Interest on bond obligations	(35,621)	(32,758)
Equity in joint venture	48,870	36,243
Other non-operating revenues (expenses)	<u>(10,811)</u>	<u>(2,432)</u>
Net non-operating revenues	<u>776,703</u>	<u>751,136</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>81,598</u>	<u>60,154</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
State of Nebraska capital appropriations	21,266	36,182
Capital grants and gifts	94,393	55,213
Additions to permanent endowments	4,039	2,259
Net other revenues, expenses, gains, or losses	<u>119,698</u>	<u>93,654</u>
INCREASE IN NET POSITION	201,296	153,808
NET POSITION:		
Net position, beginning of year	<u>3,940,653</u>	<u>3,786,845</u>
Net position, end of year	<u>\$ 4,141,949</u>	<u>\$ 3,940,653</u>

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**UNIVERSITY OF NEBRASKA FOUNDATION**  
**(A Component Unit of the University of Nebraska)**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2019**  
**(Thousands)**

**(See Independent Auditors' Reports on Pages 1, 2, 3, 4, and 5)**

	<b>2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>REVENUE AND GAINS:</b>			
Gifts, bequests, and life insurance proceeds	\$ 885	\$ 234,883	\$ 235,768
Investment income (loss)	38,219	(2,954)	35,265
Change in value of split-interest agreements	-	(36)	(36)
Realized and unrealized gains, net	740	45,178	45,918
Total revenue and gains	39,844	277,071	316,915
<b>EXPENSES</b>			
Payments to benefit the University:			
Academic support	49,113	-	49,113
Student assistance	25,883	-	25,883
Faculty assistance	6,913	-	6,913
Research	6,740	-	6,740
Museum, library, and fine arts	3,931	-	3,931
Campus and building improvements	106,541	-	106,541
Alumni associations	570	-	570
Total payments to benefit the University	199,691	-	199,691
Operating expenses:			
Salaries and benefits	21,123	-	21,123
Office expense	1,079	-	1,079
Office rent and utilities	1,777	-	1,777
Professional services	1,353	-	1,353
Dues and subscriptions	170	-	170
Travel and conferences	1,097	-	1,097
Cultivation expense	1,426	-	1,426
Miscellaneous expense	286	-	286
Contributions to other charities	8,068	-	8,068
Paid to beneficiaries	2,311	-	2,311
Depreciation	1,943	-	1,943
Total operating expenses	40,633	-	40,633
Total expenses	240,324	-	240,324
Other changes in net assets:			
Net assets released from restrictions	207,805	(207,805)	-
Total other changes in net assets	207,805	(207,805)	-
Increase in net assets	7,325	69,266	76,591
<b>NET ASSETS at beginning of year</b>	47,665	2,011,308	2,058,973
<b>NET ASSETS at end of year</b>	\$ 54,990	\$ 2,080,574	\$ 2,135,564

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**UNIVERSITY OF NEBRASKA FOUNDATION**  
**(A Component Unit of the University of Nebraska)**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**  
**(Thousands)**

**(See Independent Auditors' Reports on Pages 1, 2, 3, 4, and 5)**

	2018		
	Without donor restrictions	With donor restrictions	Total
REVENUE AND GAINS:			
Gifts, bequests, and life insurance proceeds	\$ 904	\$ 184,970	\$ 185,874
Investment income (loss)	35,156	(1,346)	33,810
Change in value of split-interest agreements	-	1,118	1,118
Realized and unrealized gains, net	893	102,085	102,978
Total revenue and gains	36,953	286,827	323,780
EXPENSES			
Payments to benefit the University:			
Academic support	93,401	-	93,401
Student assistance	25,316	-	25,316
Faculty assistance	7,592	-	7,592
Research	6,244	-	6,244
Museum, library, and fine arts	2,894	-	2,894
Campus and building improvements	44,535	-	44,535
Alumni associations	570	-	570
Total payments to benefit the University	180,552	-	180,552
Operating expenses:			
Salaries and benefits	20,256	-	20,256
Office expense	1,255	-	1,255
Office rent and utilities	1,710	-	1,710
Professional services	1,680	-	1,680
Dues and subscriptions	141	-	141
Travel and conferences	1,034	-	1,034
Cultivation expense	1,574	-	1,574
Miscellaneous expense	279	-	279
Contributions to other charities	173	-	173
Paid to beneficiaries	2,626	-	2,626
Depreciation	1,959	-	1,959
Total operating expenses	32,687	-	32,687
Total expenses	213,239	-	213,239
Other changes in net assets:			
Net assets released from restrictions	178,569	(178,569)	-
Total other changes in net assets	178,569	(178,569)	-
Increase in net assets	2,283	108,258	110,541
NET ASSETS at beginning of year, as previously reported	13,507	1,934,925	1,948,432
Effect of adoption of ASU 2016-14	31,875	(31,875)	-
NET ASSETS at beginning of year, as restated	45,382	1,903,050	1,948,432
NET ASSETS at end of year	\$ 47,665	\$ 2,011,308	\$ 2,058,973

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(Thousands)

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

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Grants and contracts	\$ 521,773	\$ 516,223
Tuition and fees	439,978	443,469
Sales and services of health care entities	22,959	23,140
Sales and services of auxiliary operations	219,713	234,329
Sales and services of auxiliary segments	123,524	120,993
Sales and services of educational activities	65,364	78,004
Student loans collected	5,776	6,252
Other Receipts	25,643	35,271
Payments to employees	(1,342,392)	(1,304,502)
Payments to vendors	(556,935)	(555,436)
Scholarships paid to students	(74,836)	(76,403)
Student loans issued	(2,070)	(5,016)
Net cash flows from operating activities	<u>(551,503)</u>	<u>(483,676)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
State of Nebraska non-capital appropriations	574,746	559,189
Gifts	106,900	101,961
Federal grants	47,365	45,503
Other receipts	658	1,271
Direct lending receipts	233,251	244,023
Direct lending payments	<u>(233,251)</u>	<u>(244,023)</u>
Net cash flows from non-capital financing activities	<u>729,669</u>	<u>707,924</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of bonds	94,275	152,950
Gifts	57,785	62,032
State of Nebraska capital appropriations	21,662	37,306
Premium on issuance of bonds	16,480	17,989
Purchases of capital assets	(185,990)	(204,973)
Defeasance of bond obligations	-	(71,021)
Principal paid on bond obligations	(73,305)	(83,465)
Interest paid on bond obligations	(40,168)	(38,101)
Payments made on lease obligations	<u>(347)</u>	<u>(345)</u>
Net cash flows from capital and related financing activities	<u>(109,608)</u>	<u>(127,628)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	160,688	230,015
Interest on investments	46,991	44,996
Distributions received from joint venture	8,643	8,634
Purchases of investments	<u>(173,698)</u>	<u>(243,511)</u>
Net cash flows from investing activities	<u>42,624</u>	<u>40,134</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>111,182</b>	<b>136,754</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>1,272,113</u></b>	<b><u>1,135,359</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 1,383,295</u></b>	<b><u>\$ 1,272,113</u></b>

See notes to financial statements.

(Continued)



# THE UNIVERSITY OF NEBRASKA

## STATEMENTS OF CASH FLOWS (Continued) FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (Thousands)

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

	2019	2018
CASH AND CASH EQUIVALENTS - END OF YEAR AS PRESENTED IN STATEMENTS OF NET POSITION:		
Cash and cash equivalents (current)	\$ 655,599	\$ 603,703
Cash and cash equivalents - restricted (current)	327,059	322,480
Cash and cash equivalents held by trustee - restricted (current)	96,374	68,992
Cash and cash equivalents (non-current)	-	1,508
Cash and cash equivalents - restricted (non-current)	500	339
Cash and cash equivalents held by trustee - restricted (non-current)	<u>303,763</u>	<u>275,091</u>
Cash and cash equivalents, end of year	<u>\$ 1,383,295</u>	<u>\$ 1,272,113</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (695,105)	\$ (690,982)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	142,862	139,408
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(26,101)	13,090
Loans to students	3,066	832
Other current assets	505	24,216
Accounts payable	22,366	8,536
Accrued salaries and wages	5,805	144
Unearned revenues and credits	(3,725)	19,579
Health and other insurance claims	<u>(1,176)</u>	<u>1,501</u>
Net cash flows used in operating activities	<u>\$ (551,503)</u>	<u>\$ (483,676)</u>
NON-CASH TRANSACTIONS:		
Capital gifts and grants	\$ 36,139	\$ 128
Increase (decrease) in fair value of investments	(3,320)	2,481
Purchase of capital assets through lease obligations	(520)	623
Equity in earnings	719	515
Capital expenditures in accounts payable	591	179
Draw on line of credit for note receivable advanced	(5,944)	(2,412)
Unrelated business income	(145)	(586)

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

**UNIVERSITY OF NEBRASKA FOUNDATION**  
**(A Component Unit of the University of Nebraska)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
**(Thousands)**  
**(See Independent Auditors' Report on Pages 1, 2, 3, 4, and 5)**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 76,591	\$ 110,541
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	1,943	1,959
Net realized and unrealized gains on investments, net	(45,918)	(102,978)
Imputed interest expense	441	588
Contribution to endowment funds	(39,189)	(42,324)
Real and personal property contributions received	(252)	(1,169)
Noncash donation to the University of Nebraska	44,241	-
(Increase) Decrease in:		
Pledges receivable	(8,512)	13,264
Other receivables	(960)	(534)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	2,249	720
University of Nebraska payable	4,520	(1,127)
Deferred annuities payable	(196)	(2,523)
Deferred revenue	(2,725)	(392)
Net cash provided by (used in) operating activities	<u>32,233</u>	<u>(23,975)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of temporary investments	(173,467)	(576,386)
Proceeds from sale and maturity of temporary investments	114,480	540,392
Net increase (decrease) in student loans	263	(233)
Purchase of investments	(367,317)	(402,740)
Proceeds from sale and maturity of investments	363,392	428,006
Proceeds from sales of property and equipment	-	6
Purchase of property and equipment	(315)	(288)
Net cash used in investing activities	<u>(62,964)</u>	<u>(11,243)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
Payment of notes payable	(18,000)	-
Contribution to endowment funds	33,054	43,207
Net cash provided by financing activities	<u>15,054</u>	<u>43,207</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(15,677)</b>	<b>7,989</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>48,769</b>	<b>40,780</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 33,092</u></b>	<b><u>\$ 48,769</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Noncash property donation to the University of Nebraska	44,241	-

See notes to financial statements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The University follows all applicable GASB pronouncements.

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

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

- The University of Nebraska Facilities Corporation (UNFC) was organized to finance the construction, repair, and renovation of buildings and the acquisition of land and equipment and to hold them in trust for the University. UNFC is governed by a Board of Directors comprised of the Board of Regents.
- The University Dental Associates (UDA) is a not-for-profit corporation organized for the purpose of billing, collecting, and distributing dental service fees generated by dentists employed by the UNMC. The distribution of fees is governed by the terms of the University of Nebraska Dental Service Plan applicable to member dentists.
- The UNMC Science Research Fund (SRF) is a not-for-profit corporation organized by the Board of Regents to solely support the research mission of the UNMC and provides services entirely, or almost entirely, to UNMC and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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- UNeHealth, a Nebraska not-for-profit corporation, was organized in 1996 to further the general health care purpose of the University of Nebraska Medical Center (UNMC). UNeHealth will increase the efficiency and effectiveness, boost visibility of commercial clinical research and ensure that contract budgets take in consideration the best interests of UNMC, UNMC Physicians (UNMC-P) and The Nebraska Medical Center (TNMC). UNeHealth seeks to create a more appealing environment for industry collaborations.
- Nebraska Utility Corporation (NUCorp) is a not-for-profit corporation formed under the Nebraska Interlocal Cooperation Act between the Board of Regents and Lincoln Electric System. The purpose of NUCorp is to purchase, lease, construct, and finance activities relating to furnishing energy requirements and utility and infrastructure facilities for the University of Nebraska-Lincoln (UNL). NUCorp provides services entirely, or almost entirely, to the UNL campus. NUCorp is governed by a five-member Board, three of which are University officials.
- The University Technology Development Corporation (UTDC) was organized to solely support the research mission of the University and provides services entirely, or almost entirely, to the University campuses and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements. The blended entity consists of the UTDC activity and the activities of six non-profit subsidiaries and one for profit subsidiary. UTDC is the sole member/stockholder of each subsidiary.

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

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

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

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

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

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

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

The University does not capitalize interest cost incurred according to GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

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

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

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

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

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

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

***Scholarships and Fellowships*** – The University receives funds that are restricted by donors and grantors for aid to students. When these funds are granted to students or when scholarships and fellowships are provided through student tuition waiver, the University records the expense for student aid and the corresponding revenue. Accordingly, at June 30, 2019 and 2018, Federal grants and contracts includes Pell grant awards amounting to \$50,429 and \$48,857, 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 \$233,217 and \$244,121 at June 30, 2019 and 2018, respectively, are treated as agency funds and not included in revenues and expenses.

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

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

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

**Reclassifications** – The fiscal year 2018 financial statements have been restated to present certain components of net position in accordance with generally accepted accounting principles. A total of \$428,222 in net position (\$296,051 previously classified as net investment in capital assets and \$132,171 previously classified as expendable debt service) was reclassified as unrestricted net position. Certain other 2018 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 \$1,994 (book balance of approximately \$1,188) at June 30, 2019, with approximately \$1,946 covered by Federal depository insurance. Bank balances of cash and cash equivalents amounted to approximately \$1,830 (book balance of approximately \$987) at June 30, 2018, with approximately \$1,548 covered by Federal depository insurance. The remaining bank balances at June 30, 2019 and 2018, 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 endowed 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 endowed funds are invested by the University and its designated investment managers, in accordance with the prudent person rule as established by the University. The prudent person rule places no restrictions on the investment of these funds.

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (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, 2019				
	Total	Level 1	Level 2	Level 3
Investments:				
U.S. Government Agencies	\$ 48,856	\$ -	\$ 48,856	\$ -
U.S. Government Treasuries	28,432	-	28,432	-
Municipal Bonds	7,904	-	7,904	-
International Bonds	9,602	-	9,602	-
Corporate Bonds	67,219	-	67,219	-
Mutual Funds-Fixed Income	25,149	25,149	-	-
Common Stock	10,201	10,201	-	-
Domestic Equity	169,675	169,675	-	-
International equity	111,443	111,443	-	-
Mutual Funds	28,421	28,421	-	-
Index Funds-Commodities	3,133	3,133	-	-
Index Funds-Public Equity	5,673	5,673	-	-
Real Estate held for investment purposes	932	-	-	932
Real Estate Mutual Funds	10,684	10,684	-	-
Money Market funds	19,522	19,522	-	-
Total	<u>\$ 546,846</u>	<u>\$ 383,901</u>	<u>\$ 162,013</u>	<u>\$ 932</u>



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

	Assets at fair value as of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments:				
U.S. Government Agencies	\$ 50,712	\$ -	\$ 50,712	\$ -
U.S. Government Treasuries	22,549	-	22,549	-
Municipal Bonds	8,747	-	8,747	-
International Bonds	9,915	-	9,915	-
Corporate Bonds	69,715	-	69,715	-
Mutual Funds-Fixed Income	27,915	27,915	-	-
Common Stock	7,521	7,521	-	-
Domestic Equity	157,423	157,423	-	-
International Equity	108,520	108,520	-	-
Mutual Funds	27,860	27,860	-	-
Index Funds-Commodities	3,541	3,541	-	-
Index Funds-Public Equity	6,040	6,040	-	-
Real Estate held for investment purposes	932	-	-	932
Real Estate Mutual Funds	10,856	10,856	-	-
Money Market Funds	24,485	24,485	-	-
Total	<u>\$ 536,731</u>	<u>\$ 374,161</u>	<u>\$ 161,638</u>	<u>\$ 932</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

Investment maturities as of June 30, 2019 are as follows:

		Investment Maturities (in years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Investments type:					
Debt securities:					
U.S. Government Agencies	\$ 48,856	\$ 15,121	\$ 4,611	\$ 2,700	\$ 26,424
U.S. Government Treasuries	28,432	4,174	13,754	9,295	1,209
Municipal Bonds	7,904	774	4,105	2,957	68
Corporate Bonds	67,219	6,334 (1)	42,033 (2)	17,585 (3)	1,267 (4)
International Bonds	9,602	3,232	4,099	564	1,707
	162,013	<u>\$ 29,635</u>	<u>\$ 68,602</u>	<u>\$ 33,101</u>	<u>\$ 30,675</u>
Other investments:					
Mutual Funds – Fixed Income	25,149				
Common Stock	10,201				
Domestic Equity	169,675				
International Equity	111,443				
Mutual Funds	28,421				
Index Funds – Commodities	3,133				
Index Funds – Public Equity	5,673				
Real Estate Mutual Funds	10,684				
Real Estate held for investment purposes	932				
Money Market Funds	19,522				
Total	\$ 546,846				

(1) This amount includes \$155 of bonds callable in less than 1 year.

(2) This amount includes \$979 of bonds callable in less than 3 years, \$238 of bonds callable in less than 4 years, \$237 of bonds callable in less than 5 years, and \$240 of bonds callable in less than 6 years.

(3) This amount includes \$675 of bonds callable in less than 7 years, \$293 of bonds callable in less than 8 years.

(4) This amount includes \$235 of bonds callable in 20-26 years.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

		Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10	
Investment type:						
Debt securities:						
U.S. Government Agencies	\$ 50,713	\$ 5,802	\$ 12,286	\$ 3,876	\$ 28,749	
U.S. Government Treasuries	22,549	860	7,143	13,196	1,350	
Municipal Bonds	8,747	1,539	4,235	2,908	65	
Corporate Bonds	69,713	3,197 (1)	50,275 (2)	14,770 (3)	1,471 (4)	
International Bonds	9,916	4,298	3,315	507	1,796	
	161,638	<u>\$ 15,696</u>	<u>\$ 77,254</u>	<u>\$ 35,257</u>	<u>\$ 33,431</u>	
Other investments:						
Mutual Funds – Fixed Income	27,915					
Common Stock	7,522					
Domestic Equity	157,423					
International Equity	108,520					
Mutual Funds	27,860					
Index Funds - Commodities	3,541					
Index Funds – Public Equity	6,040					
Real Estate Mutual Funds	10,856					
Real estate held for investment purposes	932					
Money Market Funds	24,484					
Total	\$ 536,731					

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

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

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

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

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

	2019						
	Quality Ratings						
	Fair Value	Aaa	AA	A	Baa	Ba	Unrated
Investment type:							
U.S. Government Agencies	\$ 48,856	\$ 48,856	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Treasuries	28,432	28,432	-	-	-	-	-
Municipal Bonds	7,904	7,040	796	68	-	-	-
Corporate Bonds	67,219	4,847	9,945	49,896	2,485	46	-
International Bonds	9,602	3,807	1,614	3,268	497	416	-
Mutual Funds – Fixed Income	25,149	-	-	-	-	-	25,149
Common Stock	10,201	-	-	-	-	-	10,201
Domestic Equity	169,675	-	-	-	-	-	169,675
International Equity	111,443	-	-	-	-	-	111,443
Mutual Funds	28,421	-	-	-	-	-	28,421
Index Funds – Commodities	3,133	-	-	-	-	-	3,133
Index Funds – Public Equity	5,673	-	-	-	-	-	5,673
Real Estate Mutual Funds	10,684	-	-	-	-	-	10,684
Real Estate held for investment purposes	932	-	-	-	-	-	932
Money Market Funds	19,522	-	-	-	-	-	19,522
	<u>\$ 546,846</u>	<u>\$ 92,982</u>	<u>\$ 12,355</u>	<u>\$ 53,232</u>	<u>\$ 2,982</u>	<u>\$ 462</u>	<u>\$ 384,833</u>

	2018						
	Quality Ratings						
	Fair Value	Aaa	AA	A	Baa	Ba	Unrated
Investment type:							
U.S. Government Agencies	\$ 50,712	\$ 50,712	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Treasuries	22,549	22,549	-	-	-	-	-
Municipal Bonds	8,747	8,682	-	65	-	-	-
Corporate Bonds	69,715	2,554	13,957	50,452	2,752	-	-
International Bonds	9,915	3,381	2,251	3,308	975	-	-
Mutual Funds – Fixed Income	27,915	-	-	-	-	-	27,915
Common Stock	7,522	-	-	-	-	-	7,522
Domestic Equity	157,423	-	-	-	-	-	157,423
International Equity	108,520	-	-	-	-	-	108,520
Mutual Funds	27,860	-	-	-	-	-	27,860
Index Funds – Commodities	3,541	-	-	-	-	-	3,541
Index Funds – Public Equity	6,040	-	-	-	-	-	6,040
Real Estate Mutual Funds	10,856	-	-	-	-	-	10,856
Real Estate held for investment purposes	932	-	-	-	-	-	932
Money Market Funds	24,484	-	-	-	-	-	24,484
	<u>\$ 536,731</u>	<u>\$ 87,878</u>	<u>\$ 16,208</u>	<u>\$ 53,825</u>	<u>\$ 3,727</u>	<u>\$ -</u>	<u>\$ 375,093</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The University places no limit on the amount that may be invested in any one issuer. Investment types comprising 5% or more of the University’s portfolio are as follows at June 30:

	Concentration	
	2019	2018
U.S. Government Treasuries	5%	4%

**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	
	2019	2018
Mexican Peso	\$ 1,368	\$ 1,352
Australian Dollar	518	562
British Pound	1,292	1,340
Brazilian Real	416	368
Poland Zloty	638	646
Peruvian Sol	271	211
South African Rand	497	607
Malaysian Ringgit	815	819
Totals	<u>\$ 5,815</u>	<u>\$ 5,905</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

Substantially all amounts included in accounts receivable and unbilled charges represent tuition receivables, grant reimbursements, unbilled charges, patient accounts receivable, and other receivables. Balances are stated net of allowances for doubtful accounts and contractual adjustments of approximately \$15,570 and \$14,325 at June 30, 2019 and 2018, respectively. In addition, the University established an allowance for doubtful collections of student loans of approximately \$2,553 and \$3,254 at June 30, 2019 and 2018, 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, 2019 and 2018 totaling \$48,151 and \$35,728, respectively. In addition, to the extent that sufficient funds are available, as determined by the NM Board of Directors, the University will receive an annual capital distribution. Distributions of \$8 million and \$8 million, shared equally by the venturers, were declared and paid for both 2019 and 2018, respectively.

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

In addition, the University and NM have entered into an Academic Affiliation Agreement for Education and Research. In connection with the agreement, NM has agreed to financially support certain educational, research, operational, and clinical activities of the University College of Medicine that further the mission and objectives of NM. During the fiscal years ended June 30, 2019 and 2018, the University received approximately \$68,026 and \$64,874, respectively, of support in connection with the agreement.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### F. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2019 and 2018 is as follows:

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 91,273	\$ 743	\$ -	\$ 92,016
Construction work in progress	118,840	163,092	56,937	224,995
Total capital assets not being depreciated	210,113	163,835	56,937	317,011
Capital assets, being depreciated:				
Land improvements	300,125	25,829	3,300	322,654
Leasehold improvements	44,445	-	-	44,445
Buildings	2,954,470	56,523	31,625	2,979,368
Equipment	516,422	39,038	16,136	539,324
Total capital assets, being depreciated	3,815,462	121,390	51,061	3,885,791
Less accumulated depreciation for:				
Land improvements	98,729	12,030	3,248	107,511
Leasehold improvements	13,130	2,018	-	15,148
Buildings	751,755	88,036	29,583	810,208
Equipment	364,762	40,778	14,383	391,157
Total accumulated depreciation other assets	1,228,376	142,862	47,214	1,324,024
Capital assets, net	\$ 2,797,199	\$ 142,363	\$ 60,784	\$ 2,878,778

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

### G. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences are as follows at June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2019	<u>\$ 74,497</u>	<u>\$ 58,058</u>	<u>\$ 53,791</u>	<u>\$ 78,764</u>	<u>\$ 54,686</u>
2018	<u>\$ 74,581</u>	<u>\$ 54,105</u>	<u>\$ 54,189</u>	<u>\$ 74,497</u>	<u>\$ 51,725</u>

### H. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows at June 30:

	Beg Balance	Additions	Reductions	Ending Balance	Current
<b>2019</b>					
Revenue Bonds	817,915	94,275	67,085	845,105	59,335
Revenue Bonds - Direct Placement	39,660	-	6,220	33,440	2,560
Total	<u>857,575</u>	<u>94,275</u>	<u>73,305</u>	<u>878,545</u>	<u>61,895</u>
<b>2018</b>					
Revenue Bonds	818,155	139,950	140,190	817,915	67,085
Revenue Bonds - Direct Placement	33,485	13,000	6,825	39,660	6,220
Total	<u>851,640</u>	<u>152,950</u>	<u>147,015</u>	<u>857,575</u>	<u>73,305</u>



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

Bond obligations payable at June 30, 2019 and 2018 consist of the following:

	Coupon Rate	Annual Installment	Principal Amount Outstanding	
			2019	2018
<b>Obligations under the master trust indenture:</b>				
Revenue Bonds:				
University of Nebraska-Lincoln:				
Student Fees and Facilities:				
Series 2009B, revenue bonds	3.00 - 5.70%	\$510 - 1,840	\$ 7,905	\$ 8,400
Series 2011, revenue bonds	2.00 - 5.00%	1,495 - 4,095	60,580	62,040
Series 2012, refunding bonds	3.99 - 5.00%	1,220 - 4,560	55,945	59,565
Series 2012B, revenue bonds	1.50 - 5.00%	350 - 1,640	15,025	16,070
Series 2015A, revenue bonds	2.00 - 5.00%	1,335 - 4,100	65,355	66,615
Series 2016A, revenue bonds	3.00 - 5.00%	1,995 - 4,365	61,390	64,175
Lincoln Parking Project:				
Series 2009A&B, revenue bonds	3.50 - 6.00%	780 - 1,110	9,400	10,145
Series 2013, revenue and refunding	2.00 - 4.00%	275 - 40	4,905	5,175
Series 2015, revenue and refunding	2.00 - 5.00%	505 - 1,965	4,750	6,625
University of Nebraska at Omaha:				
Student Facilities:				
Series 2015B, revenue bonds	2.00 - 5.00%	370 - 640	7,780	8,165
Series 2016B, revenue bonds	1.50 - 5.00%	915 - 2,295	33,990	35,200
Student Housing and Parking:				
Series 2014, revenue bonds	1.50 - 5.00%	500 - 790	9,065	9,595
Series 2015, revenue bonds	1.20 - 5.00%	890 - 2,580	39,980	41,545
Series 2017A, revenue bonds	1.30 - 5.00%	125 - 955	14,570	14,995
Series 2017B, revenue bonds	1.30 - 5.00%	265 - 1,075	9,950	10,695
University of Nebraska at Kearney:				
Student Facilities:				
Series 2015, revenue bonds	2.00 - 3.15%	835 - 1,270	16,610	17,440
Series 2017, revenue bonds	2.00 - 4.00%	280 - 675	12,415	12,690
Total obligations under the master trust indenture			<u>429,615</u>	<u>449,135</u>
<b>Obligations of blended entities:</b>				
University of Nebraska Facilities Corporation:				
Revenue Bonds:				
Series 2018 (Deferred Maintenance Bonds)	5.00%	\$7,500 - 11,630	\$ 94,275	\$ -
Series 2017A (Deferred Maintenance Bonds)	4.00 - 5.00%	6,270 - 9,410	77,335	77,335
Series 2017B (UNO/Community Facility Refunding)	2.00 - 5.00%	540 - 2,940	36,000	36,535
Series 2017 (UNMC Global Experiential Learning Center)	2.00 - 5.00%	1,015 - 13,795	51,260	59,010
Series 2016 (UNL Health Center and College of Nursing)	2.00 - 5.00%	790 - 2,245	17,610	18,375
Series 2016 (Deferred Maintenance Refunding)	3.00 - 4.00%	10,380 - 10,690	21,070	30,955
Series 2016 (UNMC Cancer Center)	2.00 - 5.00%	2,090 - 2,900	29,280	31,350
Series 2016 (UNMC Utility Improvement Project)	1.75 - 5.00%	1,295 - 1,590	9,920	11,180
Series 2015 (Veterinary Diagnostic Project)	4.00%	2,680 - 4,895	7,575	12,275
Series 2014A (UNMC Cancer Center)	5.00%	3,415 - 17,410	49,140	60,550
Series 2014B (Qualified Energy Conservation Bonds)	2.50 - 4.25%	370 - 510	4,325	4,325
Series 2013 (UNMC Cancer Center)	-	-	-	6,980
Series 2011 (NCTA Education Center/Student Housing Project)	4.00% - 5.50%	85 - 1,645	6,280	6,910
Series 2003 (UNL Alexander Building Project)	4.65% - 5.00%	170 - 205	930	1,090
Revenue Bonds, Direct Placement:				
Series 2018 (UNMC Eye Institute Project)	2.40%	13,000	13,000	13,000
Series 2015 (UNO Arena and UNL College of Business)	2.00%	180 - 4,855	12,065	18,285
Series 2015 (UNMC Qualified Energy Conservation Bonds)	4.25%	180 - 200	1,875	1,875
Total University of Nebraska Facilities Corporation			<u>431,940</u>	<u>390,030</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### Obligations of blended entities (Continued):

Nebraska Utility Corporation (NUCorp):

Revenue Bonds:

Series 2010 revenue bonds	1.00 - 5.00%	\$1,420 - 2,035	\$ 4,990	\$ 6,410
Series 2014B revenue bonds	5.00%	5,500	5,500	5,500
Revenue Bonds, Direct Placement:				
Series 2014A revenue bonds	3.40%	6,500	6,500	6,500
Total NUCorp			16,990	18,410
Subtotal bonds payable			878,545	857,575
Add unamortized bond premium			77,805	69,048
Less unamortized bond discount			231	276
Total bond obligations payable			\$ 956,119	\$ 926,347

Annual maturities subject to mandatory redemption at June 30, 2019, are as follows:

Year	MTI					
	Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	(Direct Placement) Principal	Interest	Principal	Interest
2020	\$ 20,150	\$ 17,599	\$ -	\$ -	\$ 20,150	\$ 17,599
2021	19,355	16,813	-	-	19,355	16,813
2022	20,040	16,095	-	-	20,040	16,095
2023	22,070	15,270	-	-	22,070	15,270
2024	25,240	15,162	-	-	25,240	15,162
2025-2029	100,725	56,683	-	-	100,725	56,683
2030-2034	90,840	37,059	-	-	90,840	37,059
2035-2039	82,175	19,422	-	-	82,175	19,422
2040-2044	39,020	5,762	-	-	39,020	5,762
2045-2049	10,000	464	-	-	10,000	464
	\$ 429,615	\$ 200,329	\$ -	\$ -	\$ 429,615	\$ 200,329

Year	UNFC					
	Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	(Direct Placement) Principal	Interest	Principal	Interest
2020	\$ 37,745	\$ 17,691	\$ 2,560	\$ 633	\$ 40,305	\$ 18,324
2021	54,320	16,190	5,035	578	59,355	16,768
2022	37,245	13,693	180	473	37,425	14,166
2023	29,960	11,963	13,365	465	43,325	12,428
2024	40,135	10,719	370	142	40,505	10,861
2025-2029	129,405	31,136	5,430	214	134,835	31,350
2030-2034	59,465	6,488	-	-	59,465	6,488
2035-2039	8,915	2,231	-	-	8,915	2,231
2040-2044	7,810	628	-	-	7,810	628
2045-2049	-	-	-	-	-	-
	\$ 405,000	\$ 110,739	\$ 26,940	\$ 2,505	\$ 431,940	\$ 113,244

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

NUCorp						
Year	Revenue Bonds		Revenue Bonds (Direct Placement)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 1,440	\$ 517	\$ -	\$ 221	\$ 1,440	\$ 738
2021	1,515	444	-	221	1,515	665
2022	2,035	369	-	221	2,035	590
2023	-	275	-	221	-	496
2024	-	275	-	221	-	496
2025-2029	-	1,375	-	1,106	-	2,481
2030-2034	5,500	1,100	6,500	885	12,000	1,985
2035-2039	-	-	-	-	-	-
2040-2044	-	-	-	-	-	-
2045-2049	-	-	-	-	-	-
	<u>\$ 10,490</u>	<u>\$ 4,355</u>	<u>\$ 6,500</u>	<u>\$ 3,096</u>	<u>\$ 16,990</u>	<u>\$ 7,451</u>

  

Total University						
Year	Revenue Bonds		Revenue Bonds (Direct Placement)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 59,335	\$ 35,807	\$ 2,560	\$ 854	\$ 61,895	\$ 36,661
2021	75,190	33,447	5,035	799	80,225	34,246
2022	59,320	30,157	180	694	59,500	30,851
2023	52,030	27,508	13,365	686	65,395	28,194
2024	65,375	26,156	370	363	65,745	26,519
2025-2029	230,130	89,194	5,430	1,320	235,560	90,514
2030-2034	155,805	44,647	6,500	885	162,305	45,532
2035-2039	91,090	21,653	-	-	91,090	21,653
2040-2044	46,830	6,390	-	-	46,830	6,390
2045-2049	10,000	464	-	-	10,000	464
	<u>\$ 845,105</u>	<u>\$ 315,423</u>	<u>\$ 33,440</u>	<u>\$ 5,601</u>	<u>\$ 878,545</u>	<u>\$ 321,024</u>

At June 30, 2019 and 2018, the University and trustees for these bond funds held cash and investments in the amount of approximately \$433,474 and \$378,948, 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 MTI) 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 MTI was created for the purpose of achieving lower borrowing costs through sharing accumulated excess revenues and

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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earnings derived from such facilities. As of June 30, 2019, the members of the Obligated Group are (a) the student housing, student unions, student recreation, and student health facilities on the University of Nebraska - Lincoln campus (UNL Student Fees and Facilities), (b) the parking facilities on the University of Nebraska - Lincoln campus (UNL Parking); (c) the student center and HPER facility at the University of Nebraska at Omaha (UNO Facilities); (d) certain student housing and parking facilities at the University of Nebraska at Omaha (UNO Student Housing and Parking); and (e) the student housing facilities on the University of Nebraska at Kearney campus (UNK Student 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 MTI in the future as circumstances permit.

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

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

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

Events of default under the applicable bond resolution for each Obligated Group Member include defaults in the payment of principal at any time, or of interest not remedied within 30 days, failure to perform covenants that is not remedied within 90 days, failure to complete construction of a facility; damage to the facilities constituting part of the facilities group resulting in a material reduction in revenues; insolvency or institution of bankruptcy proceedings; receivership appointment; or a final judgment against the Board of Regents resulting in a superior lien on the applicable pledged revenues. Certain events of default related to legal proceedings include provisions for appeal by the Board of Regents. Upon the occurrence of an event of default under the applicable bond resolution, the bond trustee may, and upon the written direction of the holders of not less than 20% of bonds outstanding in the case of UNL Student Fees and Facilities, and 25% of bonds outstanding for all other Obligated Group Members, shall, declare all outstanding principal and accrued interest due. The bond resolutions provide for the appointment of a receiver for the facilities and the related revenues and fees by the applicable bond trustee upon an event of default and the institution of legal proceedings by the bond trustee or a bondholder.

As of October 24, 2019, none of the bonds secured by the MTI are legally outstanding or remain obligations of the Board. See Note Q-SUBSEQUENT EVENTS for a description of the refinancing transaction.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### *MTI Bond Issuances*

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

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

### *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 the Board's obligations under the applicable financing or lease agreement. The Board has covenanted to make payments from legally available repayment sources and, in certain cases, to apply designated State appropriations to repayment.

### *UNFC Bond Issuances*

*Facilities Bonds, Series 2018* – On August 9, 2018, UNFC issued \$94,275 of Facilities Bonds, Series 2018. The proceeds of the bonds will be used for continued renewal, renovation and replacement projects on the four campuses of the University of Nebraska. Principal and interest payments will be paid from appropriations by the State of Nebraska and matched amounts by the Board of Regents. The bonds are secured by a covenant by the Board of Regents to make payments under a third amended and restated financing agreement between the Board of Regents and UNFC.

*UNMC Eye Institute Bonds, Series 2018* – In 2018, UNFC authorized the issuance of \$13,000 of UNMC Eye Institute Project Bonds, Series 2018 dated March 1, 2018. The proceeds of the Series 2018 bonds are being used to refinance \$14,740 of UNMC Eye Institute Bonds, Series 2011. Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Board of Regents.

*Deferred Maintenance Bonds, Series 2017A* – In 2017, UNFC authorized the issuance of \$77,335 of Deferred Maintenance Bonds, Series 2017A dated October 4, 2017. The proceeds of the Series 2017A bonds will be used for continued renewal, renovation and replacement projects on the four campuses of the University of Nebraska. Principal and interest payments will be paid from appropriations by the State of Nebraska and matched amounts from the Board of Regents. The bonds are secured by a covenant by the Board of Regents to make payments under a third amended and restated financing agreement between the Board of Regents and UNFC.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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*UNO/Community Facility Refunding, Series 2017B* – In 2017, UNFC authorized the issuance of \$36,535 of UNO/Community Facility Refunding Bonds, Series 2017B dated October 4, 2017. The proceeds of the Series 2017B bonds were used to advance refund \$35,800 of UNO/Community Facility Bonds, Series 2013A. The refunding reduced total debt service payments by approximately \$1,015 and resulted in an economic gain of approximately \$866. The accounting loss of \$3,202 is deferred and amortized over the remaining life of the refunded issue or the life of the 2017B bonds, whichever is shorter. Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents.

### *Events of Default and Acceleration Provisions – UNFC Deferred Maintenance Bonds*

The below-described events of default and acceleration provisions are contained within the respective legal documentation for the following bond issues of UNFC:

- Facilities Bonds, Series 2018
- Facilities Bonds, Series 2017A
- Deferred Maintenance Refunding Bonds, Series 2016

Events of default under the bond resolution include default of payment of principal or interest, or a covenant default that continues for 60 days after written notice to UNFC or the bond trustee. Upon the occurrence of an event of default under the bond resolution, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders of not less than 10% of bonds outstanding are also entitled to equitable and legal remedies to enforce their rights under the bond resolution.

The third amended and restated financing agreement for the Facilities Bonds, Series 2018 also governs the Board's obligations under UNFC's Deferred Maintenance Refunding Bonds, Series 2016 and Facilities Bonds, Series 2017A. UNFC also has the right to accelerate the Board's obligations under the financing agreement upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default that is not remedied within 15 days and a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice. UNFC may, and upon the written direction of the holders of at least 25% of bonds outstanding shall, take possession of the facilities constituting the projects and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the third amended and restated financing agreement to the bond trustee.

### *Events of Default and Acceleration Provisions – Certain UNFC Bonds*

The below-described events of default and acceleration provisions are contained within the respective legal documentation for the following bond issues of UNFC:

- UNMC Eye Institute Project, Series 2018
- UNO/Community Facility Refunding Bonds, Series 2017B
- UNL Veterinary Diagnostic Center, Series 2015

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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Events of default under the bond resolution include default of payment of principal or interest, or a covenant default that continues for 60 days after written notice to UNFC or the bond trustee. Upon the occurrence of an event of default under the bond resolution, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders of not less than 10% of bonds outstanding are also entitled to equitable and legal remedies to enforce their rights under the bond resolution.

UNFC also has the right to accelerate the Board's obligations under the financing agreement upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default that is not remedied within 15 days and a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice. UNFC may, and upon the written direction of the holders of at least 25% of bonds outstanding shall, take possession of the facilities constituting the projects and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the financing agreement to the bond trustee.

The below-described events of default and acceleration provisions are contained within the respective legal documentation for the following bond issues of UNFC:

- UNMC Global Experiential Learning Center, Series 2017
- UNL Health Center and College of Nursing Projects, Series 2016
- UNMC Utility Improvements Project, Series 2016
- UNMC Cancer Center Bonds, Series 2016
- UNMC Cancer Center Bonds, Series 2014A
- UNMC QECBs, Series 2014B
- UNMC Cancer Research Center, Series 2013

Events of default under the bond resolution include default of payment of principal or interest on the bonds; a covenant default that continues for 30 days after written notice to UNFC or the bond trustee; the institution of bankruptcy proceedings with regards to the Board; and an event of default under the financing agreement. Upon the occurrence of an event of default under the bond resolution, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders also entitled to equitable and legal remedies to enforce their rights under the bond resolution.

UNFC also has the right to accelerate the Board's obligations under the financing agreement upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default that is not remedied within 15 days and a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice. UNFC may, and upon the written direction of the holders of at least 25% of bonds outstanding shall, take possession of the facilities constituting the projects and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the financing agreement to the bond trustee.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### *Events of Default and Acceleration Provisions – UNO Arena and UNL College of Business, Series 2015*

Events of default under the bond resolution include default of payment of principal or interest on the bonds; a covenant default that continues for 30 days after written notice to UNFC or the bondholder; the institution of bankruptcy proceedings with regards to the Board; and an event of default under the financing agreement. Upon the occurrence of an event of default under the bond resolution, the bondholder may declare all outstanding principal and accrued interest due and payable immediately. The bondholder is also entitled to equitable and legal remedies to enforce its rights under the bond resolution.

UNFC also has the right to accelerate the Board's obligations under the financing agreement upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default that is not remedied within 5 days and a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice. UNFC may, and upon the written direction of the bondholder shall, take possession of the facilities constituting the projects and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the financing agreement to the bondholder.

### *Events of Default and Acceleration Provisions – UNMC Qualified Energy Conservation Bond, Series 2015*

Events of default under the bond resolution include default of payment of principal or interest on the bonds; a covenant default that continues for 30 days after written notice to UNFC or the bondholder; the institution of bankruptcy proceedings with regards to the Board; and an event of default under the financing agreement. Upon the occurrence of an event of default under the bond resolution, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders are also entitled to equitable and legal remedies to enforce their rights under the bond resolution.

UNFC also has the right to accelerate the Board's obligations under the financing agreement upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default that is not remedied within 5 days and a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice. UNFC may, and upon the written direction of the holders of at least 25% of bonds outstanding shall, take possession of the facilities constituting the projects and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the financing agreement to the bond trustee.

### *Events of Default and Acceleration Provisions – UNMC Qualified Energy Conservation Bond, Series 2015*

Events of default under the bond indenture include default of payment of principal or interest, or a covenant default that continues for 30 days after written notice to UNFC or the bond trustee. Upon the occurrence of an event of default under the bond indenture, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders of not less than 25% of bonds outstanding are also entitled to equitable and legal remedies to enforce their rights under the bond indenture.



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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UNFC also has the right to accelerate the Board's obligations under the lease upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default; a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice or if the Board is not diligently working to cure such failure; an admission by the Board in writing that it is unable to pay its debts when due; the institution of bankruptcy proceedings with regards to the Board; appointment of receivership or similar proceedings; a writ or warrant of attachment or similar process against all or a substantial portion of the Board's property, which is not contested or stayed within 60 days; or if the Board shall abandon the project and it shall remain uncared for or unoccupied for a period of 60 days. UNFC may, and upon the written direction of the trustee shall declare the bonds due and payable, take possession of the facilities constituting the project and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the lease to the bond trustee.

### *Events of Default and Acceleration Provisions – UNL Alexander Building Project, Series 2003*

Events of default under the bond indenture include default of payment of principal or interest, a covenant default that continues for 30 days after written notice to UNFC or the bond trustee, or a default under the lease. Upon the occurrence of an event of default under the bond indenture, the bond trustee may, and upon the written direction of the holders of not less than 25% of bonds outstanding shall, declare all outstanding principal and accrued interest due and payable immediately. Bondholders of not less than 25% of bonds outstanding are also entitled to equitable and legal remedies to enforce their rights under the bond indenture.

UNFC also has the right to accelerate the Board's obligations under the lease upon an event of default by the Board of Regents. Events of default under the financing agreement include a payment default; a failure of the Board to perform any covenant or obligation thereunder that is not remedied within 30 days of notice or if the Board is not diligently working to cure such failure; an admission by the Board in writing that it is unable to pay its debts when due; the institution of bankruptcy proceedings with regards to the Board; appointment of receivership or similar proceedings; a writ or warrant of attachment or similar process against all or a substantial portion of the Board's property, which is not contested or stayed within 60 days; or if the Board shall abandon the project and it shall remain uncared for or unoccupied for a period of 60 days. UNFC may, and upon the written direction of the trustee shall declare the bonds due and payable, take possession of the facilities constituting the project and take such other action, including the lease thereof, as it shall deem advisable. For these purposes, UNFC has assigned its rights under the lease to the bond trustee.

The 2003 bonds were refunded with a portion of the proceeds of a bond issue of UNFC that closed on October 24, 2019. See Note Q-SUBSEQUENT EVENTS for a description of the refinancing transaction.

### *Nebraska Utility Corporation*

#### *Events of Default and Acceleration Provisions – NUCorp 2010 Bonds*

Events of default under the bond resolution include default of payment of principal on the bonds, or the payment of interest that is not remedied within 30 days after the payment date; a covenant default that continues for 90 days after written notice NUCorp (subject to limitations of inability to comply due to a force majeure); the failure of NUCorp to pay its debts when due; the institution of bankruptcy by

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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NUCorp or similar proceedings with regards to the NUCorp; bankruptcy proceedings commenced against NUCorp that have not been stayed or dismissed within 90 days; and an event of default under the financing agreement. Upon the occurrence of an event of default under the bond resolution, the holders of not less than 25% of bonds outstanding may appoint a receiver to act as trustee for the benefit of bondholders. The receiver may sue for all amounts then due or during a default becoming, and at any time remaining due from NUCorp. Bondholders representing not less than 25% of outstanding bonds are also entitled to equitable and legal remedies to enforce their rights under the bond resolution.

### *Events of Default and Acceleration Provisions – NUCorp 2014A and 2014B Bonds*

Events of default under the applicable bond resolution include default of payment of principal on the bonds, or the payment of interest that is not remedied within 30 days after the payment date; a covenant default that continues for 90 days after written notice NUCorp (subject to limitations of inability to comply due to a force majeure); the failure of NUCorp to pay its debts when due; the institution of bankruptcy by NUCorp or similar proceedings with regards to the NUCorp; bankruptcy proceedings commenced against NUCorp that have not been stayed or dismissed within 90 days; and an event of default under the financing agreement. Upon the occurrence of an event of default under the bond resolution, the holders of not less than 25% of bonds outstanding may appoint a receiver to act as trustee for the benefit of bondholders. The receiver may sue for all amounts then due or during a default becoming, and at any time remaining due from NUCorp. Bondholders representing not less than a majority of outstanding bonds are also entitled direct the proceedings of the receiver, subject to the receiver's opinion of fairness to all bondholders.

### *Bond Resolutions/Indentures*

The bond resolutions or indentures, as applicable, 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 or indentures also require that specified amounts be deposited with the trustee for certain funds. At June 30, 2019 and 2018, the University, UNFC, and NUCorp are in compliance with these requirements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### I. LEASE OBLIGATIONS

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

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
2019	<u>\$ 49,409</u>	<u>\$ 520</u>	<u>\$ 347</u>	<u>\$ 49,582</u>	<u>\$ 273</u>
2018	<u>\$ 49,130</u>	<u>\$ 624</u>	<u>\$ 345</u>	<u>\$ 49,409</u>	<u>\$ 288</u>

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

	<b>Buildings and Properties</b>	<b>Equipment</b>	<b>Total</b>
2020	\$ 4,223	\$ 300	\$ 4,523
2021	4,239	298	4,537
2022	4,249	102	4,351
2023	4,253	47	4,300
2024	4,250	19	4,269
2025-2029	21,277	-	21,277
2030-2034	25,411	-	25,411
2035-2039	28,056	-	28,056
2040-2044	30,976	-	30,976
2045-2049	<u>6,720</u>	<u>-</u>	<u>6,720</u>
	133,654	766	134,420
Less interest and executory costs	<u>84,787</u>	<u>51</u>	<u>84,838</u>
	<u>\$ 48,867</u>	<u>\$ 715</u>	<u>\$ 49,582</u>

Capital assets held under capital lease obligations at June 30, 2019, are as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 48,572	\$ 6,439	\$ 42,133
Equipment	<u>1,478</u>	<u>389</u>	<u>1,089</u>
	<u>\$ 50,050</u>	<u>\$ 6,828</u>	<u>\$ 43,222</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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The University has entered into operating leases for certain space and equipment, which expire at various dates through 2043. Outstanding commitments for these leases, with non-cancelable periods greater than one year, are expected to be paid in the following years ending June 30:

	<b>Operating</b>
2020	\$ 3,774
2021	3,042
2022	2,245
2023	1,972
2024	1,457
2025-2029	6,359
2030-2034	4,689
2035-2039	3,750
2040-2044	<u>3,000</u>
	<u>\$ 30,288</u>

Expenses for all operating leases totaled \$10,518 and \$10,766 in fiscal years 2019 and 2018, respectively.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (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, 2017	\$ 1,750	\$ 2,826	\$ 8,185	\$ 12,761
Incurred claims	-	903	171,435	172,338
Payments on claims	(597)	(945)	(169,297)	(170,839)
Claim reserve, June 30, 2018	1,153	2,784	10,323	14,260
Incurred claims	-	1,201	170,250	171,451
Payments on claims	(410)	(1,101)	(171,115)	(172,626)
Claim reserve, June 30, 2019	\$ 743	\$ 2,884	\$ 9,458	\$ 13,085

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 generally 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 an outside actuarial firm. 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, 2019 and 2018, the trustees for the health and other insurance claims programs held cash and cash equivalents and investments totaling approximately \$92,622 and \$99,809, respectively, whose use is limited to the payment of claims under the programs. These amounts are included in cash and cash equivalents and investments – restricted on the statements of net position.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### K. RETIREMENT PLANS

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

The University's total payroll for fiscal years 2019 and 2018 was approximately \$1,074,621 and \$1,055,813, respectively, of which approximately \$802,862 and \$785,784 was covered by the plan. The University's contribution during 2019 and 2018 was approximately \$62,672, or 7.81%, and \$61,378, or 7.81%, of covered payroll, respectively, and the faculty and staff's contribution was approximately \$42,108, or 5.24%, and \$41,253, or 5.25%, of covered payroll, respectively.

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

### L. COMMITMENTS AND CONTINGENCIES

The University has budgeted for the construction of facilities that are estimated to cost approximately \$641,253 and \$613,284 at June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the approximate remaining costs to complete these facilities were \$396,495 and \$315,363, respectively, which will be financed as follows:

	2019	2018
Bond funds	\$ 189,690	\$ 186,835
Federal Funds	8,362	12,771
University funds	26,400	38,388
State capital appropriations	241	3,796
Private gifts, grants, and contracts	<u>171,802</u>	<u>73,573</u>
	<u>\$ 396,495</u>	<u>\$ 315,363</u>

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

The Board of Regents and the EPA subsequently agreed to an action for the remediation and restoration of the area, which was completed pending acceptance of the final remedial investigation feasibility study report by the EPA. In 2011, the University received a proposed plan from the EPA for additional remedial activities, such as installation of a landfill cap, an establishment of a monitoring well network, and treatment for a groundwater contaminant. In 2013, the EPA submitted a record of decision of an approved remedy and, in 2014, the University and the EPA signed a consent decree and statement of work to complete the remediation work, which decree was approved by the United States District Court in June 2015.

The University and the EPA have agreed that an amendment to the record of decision is necessary to reduce the scope of remediation efforts at NOP. Current cost estimates are approximately \$138 per year until the amendment process is complete, at which time more precise costs will be known.

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

### M. RELATED-PARTY TRANSACTIONS

The University routinely has transactions with Nebraska Medicine (NM). The members of the faculty at the University are also members of the medical staff of NM, and in many other areas, the operations of the University and NM are integrated and overlap. The University provides certain operational and support services, as well as certain direct financial support to NM. For the fiscal years ended June 30, 2019 and 2018, NM purchased approximately \$26,715 and \$29,763 of goods and services from UNMC. In addition, during 2019 and 2018, UNMC paid NM \$16,369 and \$14,056, respectively, for support services provided by NM.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### N. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

For the year ended June 30, 2019:

	Compensation	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 512,535	\$ 56,856	\$ 11,162	\$ -	\$ 580,553
Research	253,446	140,402	3,274	-	397,122
Public service	73,281	41,783	667	-	115,731
Academic support	123,729	43,945	168	-	167,842
Student services	29,035	9,294	404	-	38,733
Institutional support	105,066	23,286	41	-	128,393
Operation and maintenance of plant	41,557	71,953	-	-	113,510
Healthcare entities	66,923	15,077	876	-	82,876
Scholarships and fellowships	1,337	271	53,732	-	55,340
Auxiliary operations	141,767	163,370	4,511	-	309,648
Depreciation	-	-	-	142,862	142,862
Total expenses	<u>\$ 1,348,676</u>	<u>\$ 566,237</u>	<u>\$ 74,835</u>	<u>\$ 142,862</u>	<u>\$ 2,132,610</u>

For the year ended June 30, 2018:

	Compensation	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 500,009	\$ 57,284	\$ 9,206	\$ -	\$ 566,499
Research	236,696	134,955	2,294	-	373,945
Public service	71,782	38,017	557	-	110,356
Academic support	118,089	35,516	109	-	153,714
Student services	28,142	7,325	391	-	35,858
Institutional support	96,922	23,354	57	-	120,333
Operation and maintenance of plant	41,049	85,823	-	-	126,872
Healthcare entities	59,085	16,446	1,758	-	77,289
Scholarships and fellowships	1,469	1,469	61,656	-	64,594
Auxiliary operations	151,756	163,093	374	-	315,223
Depreciation	-	-	-	139,408	139,408
Total expenses	<u>\$ 1,304,999</u>	<u>\$ 563,282</u>	<u>\$ 76,402</u>	<u>\$ 139,408</u>	<u>\$ 2,084,091</u>



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### O. AUXILIARY SEGMENT

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

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

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

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

*UNO Student Housing/Parking Bonds, Series 2014, Series 2015, Series 2017A, and Series 2017B* – The bonds are used to provide student housing, parking, and related facilities as allowed by the covenants for the University. Operating revenues consist primarily of rentals, student fees, and parking fees.

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

Pledges pertaining to these issues are disclosed in Note H.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

	June 30,	
	2019	2018
<b>Condensed Statements of Net Position</b>		
Assets and Deferred Outflows of Resources		
Assets:		
Current assets	\$ 74,502	\$ 68,750
Non-current assets:		
Capital assets	542,514	549,327
Other non-current assets	134,139	129,241
Total assets	<u>751,155</u>	<u>747,318</u>
Deferred Outflows of Resources:		
Deferred loss on bond refunding	<u>15,504</u>	<u>16,423</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current liabilities	43,029	45,194
Non-current liabilities	<u>443,569</u>	<u>463,694</u>
Total liabilities	<u>486,598</u>	<u>508,888</u>
Deferred Inflows of Resources:		
Deferred service concession arrangement receipts	<u>2,214</u>	<u>4,576</u>
Net Position:		
Net investment in capital assets	92,165	79,431
Restricted:		
Expendable:		
Plant construction	28,364	25,913
Debt service	136,482	128,585
Unrestricted	<u>20,836</u>	<u>16,348</u>
Total net position	<u>\$ 277,847</u>	<u>\$ 250,277</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

	Years Ended June 30,	
	2019	2018
<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b>		
Operating revenues		
Room and board	\$ 99,394	\$ 97,602
Student Fees	13,814	14,183
Parking facilities	14,670	13,926
Bookstore and bookstore commissions	6,727	6,616
Other operating revenues	5,291	5,237
Operating expenses:		
Depreciation	(20,467)	(20,157)
Other operating expenses	(87,718)	(91,434)
Operating income	31,711	25,973
Non-operating expense	(4,141)	(21,204)
Change in net position	27,570	4,769
Net position, beginning of year	250,277	245,508
Net position, end of year	\$ 277,847	\$ 250,277

	Years Ended June 30,	
	2019	2018
<b>Condensed Statements of Cash Flows</b>		
Net cash flows from operating activities	\$ 49,770	\$ 47,921
Net cash flows from capital and related financing activities	(45,149)	(64,722)
Net cash flows from investing activities	7,092	1,336
Net change in cash and cash equivalents	11,713	(15,465)
Cash and cash equivalents, beginning of year	176,324	191,789
Cash and cash equivalents, end of year	\$ 188,037	\$ 176,324

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### P. CONDENSED COMPONENT UNIT FINANCIAL INFORMATION

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

#### For the year ended June 30, 2019

	UTDC	UNFC	UNeHealth	UDA	SRF	NUCorp
<b>Condensed Statement of Net Position</b>						
Assets and Deferred Outflows of Resources						
Assets:						
Current assets	\$ 12,653	\$ 60,186	\$ 5,666	\$ 1,010	\$ 18,923	\$ 9,292
Non-current assets						
Capital assets	858	-	-	11	-	62,328
Other non-current assets	-	184,089	-	-	134,363	10,667
Total assets	13,511	244,275	5,666	1,021	153,286	82,287
Deferred Outflows of Resources						
Deferred loss on bond refunding	-	2,754	-	-	-	288
Liabilities, Deferred Inflows of Resources, and Net Position						
Liabilities:						
Current liabilities	11,692	71,737	1,938	418	10,948	6,155
Non-current liabilities	74	430,130	-	-	1,418	15,727
Total liabilities	11,766	501,867	1,938	418	12,366	21,882
Deferred Inflows of Resources						
Deferred service concession arrangement receipts	-	344	-	-	-	-
Net Position:						
Net investment in capital assets	858	-	-	-	-	45,857
Restricted:						
Expendable	-	-	-	-	47,039	-
Plant construction	-	168,651	-	-	-	-
Debt service	-	50,023	-	-	-	4,367
Unrestricted	887	(473,856)	3,728	603	93,881	10,469
Total net position	\$ 1,745	\$ (255,182)	\$ 3,728	\$ 603	\$ 140,920	\$ 60,693

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

	<u>UTDC</u>	<u>UNFC</u>	<u>UNeHealth</u>	<u>UDA</u>	<u>SRF</u>	<u>NUCorp</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>						
Operating revenues						
Grants and contracts	\$ 19,761	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and services of educational activities	6,742	-	-	-	-	-
DDIR revenue	-	-	-	-	7,130	-
Sales and services of health care entities	-	-	7,420	2,507	-	-
Other operating revenue	2,330	-	-	-	-	30,126
Operating expenses:						
Depreciation	332	-	-	25	-	2,955
Other operating expenses	<u>37,274</u>	<u>1,188</u>	<u>6,892</u>	<u>2,418</u>	<u>(193)</u>	<u>20,465</u>
Operating income	<u>(8,773)</u>	<u>(1,188)</u>	<u>528</u>	<u>64</u>	<u>7,323</u>	<u>6,706</u>
Non-operating income (expense)	8,274	(13,711)	-	-	1,040	(118)
Increase (decrease) in net position	(499)	(14,899)	528	64	8,363	6,588
Net position - beginning of year	<u>2,244</u>	<u>(240,283)</u>	<u>3,200</u>	<u>539</u>	<u>132,557</u>	<u>54,105</u>
Net position - end of year	<u>\$ 1,745</u>	<u>\$ (255,182)</u>	<u>\$ 3,728</u>	<u>\$ 603</u>	<u>\$ 140,920</u>	<u>\$ 60,693</u>
<b>Condensed Statement of Cash Flows</b>						
Net cash flows from operating activities	\$ (7,800)	\$ -	\$ 621	\$ 77	\$ 8,205	\$ 10,649
Net cash flows from noncapital financing activities	-	-	-	-	(1,301)	-
Net cash flows from capital and related financing activities	8,258	42,442	-	-	-	(6,130)
Net cash flows from investing activities	<u>11</u>	<u>5,510</u>	<u>-</u>	<u>-</u>	<u>(5,090)</u>	<u>(7,069)</u>
Net change in cash and cash equivalents	469	47,952	621	77	1,814	(2,550)
Cash and cash equivalents - beginning of year	<u>5,620</u>	<u>189,754</u>	<u>2,996</u>	<u>554</u>	<u>1,641</u>	<u>8,630</u>
Cash and cash equivalents - end of year	<u>\$ 6,089</u>	<u>\$ 237,706</u>	<u>\$ 3,617</u>	<u>\$ 631</u>	<u>\$ 3,455</u>	<u>\$ 6,080</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

For the year ended June 30, 2018

	UTDC	UNFC	UNeHealth	UDA	SRF	NUCorp
<b>Condensed Statement of Net Position</b>						
Assets and Deferred Outflows of Resources						
Assets:						
Current assets	\$ 10,891	\$ 32,574	\$ 4,981	\$ 917	\$ 17,020	\$ 10,838
Non-current assets						
Capital assets	1,190	-	-	36	-	60,432
Other non-current assets	-	165,219	-	-	119,429	4,790
Total assets	12,081	197,793	4,981	953	136,449	76,060
Deferred outflows of Resources						
Deferred loss on bond refunding	-	3,016	-	-	-	371
Liabilities, Deferred Inflows of Resources, and Net Position						
Liabilities:						
Current liabilities	9,837	73,302	1,781	414	3,892	5,054
Non-current liabilities	-	367,148	-	-	-	17,272
Total liabilities	9,837	440,450	1,781	414	3,892	22,326
Deferred Inflows of Resources						
Deferred service concession arrangement receipts	-	642	-	-	-	-
Net Position:						
Net investment in capital assets	1,190	-	-	-	-	42,932
Restricted:						
Expendable	-	-	-	-	43,768	-
Plant construction	-	134,093	-	-	-	-
Debt service	-	46,842	-	-	-	3,569
Unrestricted	1,054	(421,218)	3,200	539	88,789	7,604
Total net position	\$ 2,244	\$ (240,283)	\$ 3,200	\$ 539	\$ 132,557	\$ 54,105

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

	UTDC	UNFC	UNeHealth	UDA	SRF	NUCorp
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>						
Operating revenues						
Grants and contracts	\$ 12,643	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and services of educational activities	5,983	-	-	-	-	-
DDIR revenue	-	-	-	-	7,528	-
Sales and services of health care entities	-	-	7,138	2,537	-	-
Other operating revenue	1,393	-	-	-	-	30,406
Operating expenses:						
Depreciation	322	-	-	40	-	2,146
Other operating expenses	29,930	1,013	6,303	2,410	(389)	20,297
Operating income	(10,233)	(1,013)	835	87	7,917	7,963
Non-operating income (expense)	10,659	9,150	-	-	2,874	(372)
Increase (decrease) in net position	426	8,137	835	87	10,791	7,591
Net position - beginning of year	1,818	(248,420)	2,365	452	121,766	46,514
Net position - end of year	<u>\$ 2,244</u>	<u>\$ (240,283)</u>	<u>\$ 3,200</u>	<u>\$ 539</u>	<u>\$ 132,557</u>	<u>\$ 54,105</u>
<b>Condensed Statement of Cash Flows</b>						
Net cash flows from operating activities	\$ (8,654)	\$ -	\$ 757	\$ 28	\$ 1,220	\$ 10,659
Net cash flows from noncapital financing activities	-	-	-	-	(392)	-
Net cash flows from capital and related financing activities	10,420	42,259	-	-	-	(9,059)
Net cash flows from investing activities	(129)	3,366	-	(10)	782	(615)
Net change in cash and cash equivalents	1,637	45,625	757	18	1,610	985
Cash and cash equivalents - beginning of year	3,983	144,129	2,239	536	31	7,645
Cash and cash equivalents - end of year	<u>\$ 5,620</u>	<u>\$ 189,754</u>	<u>\$ 2,996</u>	<u>\$ 554</u>	<u>\$ 1,641</u>	<u>\$ 8,630</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### Q. SUBSEQUENT EVENTS

On October 24, 2019 UNFC issued \$525,880 of Series 2019A (taxable) Bonds and \$37,415 Series 2019B (tax-exempt) Bonds. Pursuant to a Financing Agreement between the University and UNFC, and a Trust Indenture, UNFC will use the proceeds of the Series 2019 bonds to (a) pay the costs of certain renewal, renovation and replacement projects on the campuses of the University, (b) refund or fund escrows to refund certain outstanding obligations of the Board of Regents of the University of Nebraska, and (c) pay the costs of issuance of the Series 2019 Bonds. Portions of the proceeds referenced in (b) were used to refund all outstanding bonds under the Master Trust Indenture and the Master Trust Indenture has subsequently been dissolved.

The University of Nebraska has evaluated subsequent events from the balance sheet date through December 13, 2019, the date at which the financial statements were available to be issued.

### R. UNIVERSITY OF NEBRASKA FOUNDATION

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

Although the University does not control the timing or amount of receipts from the Foundation, the resources that the Foundation holds and invests, or the income thereon, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation are primarily used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements. Based on the Foundation's audited financial statements as of June 30, 2019 and 2018, the Foundation's net assets (including unrealized gains) totaled \$2,135,564 and \$2,058,973, respectively.

During the years ended June 30, 2019 and 2018, the Foundation contributed \$93 million and \$135 million, respectively, to the University for academic support, student assistance, faculty assistance, research, museums, and libraries. In addition, the Foundation provided capital gifts of \$107 million and \$45 million during 2019 and 2018, respectively, to the University. These contributions provided support for several projects, including renovations of the UNMC Munroe-Meyer Institute and the UNL Johnny Carson Center for Emerging Media Arts, the UNO Biomechanics Research building addition, and the construction of the UNL Gymnastics facility.

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



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### S. COMPONENT UNIT DISCLOSURES

#### (1) Summary of Significant Accounting Policies

##### *(a) Nature of the Entity and Principles of Consolidation*

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

The University of Nebraska considers the University of Nebraska Foundation a Component Unit under GASB standards and therefore includes the audited financial statements of the University of Nebraska Foundation in its Comprehensive Annual Financial Reports.

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

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

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

- *Net assets without donor restrictions* – Net assets and contributions not subject to donor-imposed stipulations.
- *Net assets with donor restrictions* – Net assets and contributions subject to donor-imposed stipulations outlining a specific use or time restriction. After the donor-imposed time or purpose restriction is satisfied or after the board appropriates their expenditures in the case of gains and income realized on permanent endowment funds, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported within the consolidated statements of activities as net assets released from restrictions.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and any other assets or liabilities are reported as increases (decreases) in net assets without donor restrictions, unless their use is limited by donor stipulation or by laws. Expirations of temporary restrictions on net assets with donor restrictions (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.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### *(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 contributions with donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are transferred to net assets without donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the contribution as a component of net assets without donor restrictions. 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. For alternative investments in funds that do not have readily determinable fair values, including hedge funds and limited partnerships, the Foundation records these investments using net asset value per share or its equivalent as a practical expedient to fair value. These investments in limited partnerships are generally valued based upon the most recent net asset value or capital account information available from the general partner of the limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value. Real estate, mortgage contracts, and the cash value of insurance policies are recorded at amortized cost. They are reviewed for impairment on an annual basis.

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).

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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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 net assets without donor restrictions, 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, 2019 and 2018, \$21,806 and \$20,214, respectively, was charged to donor restricted investment income and credited to investment income without donor restriction in the consolidated statements of activities related to the management fee for endowment funds. Also, included in investment income without donor restriction for the years ended June 30, 2019 and 2018 is \$5,272 and \$4,967, respectively, of a management fee charged to agency funds.

### ***(f) Property and Equipment***

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

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as contributions without donor restriction, 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 contributions with donor restriction. 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 \$339 million and \$335 million at June 30, 2019 and 2018 and were held on behalf of the University of Nebraska and other related entities.

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

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

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

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

### **(i) *Income Taxes***

The Foundation has been recognized as a not-for-profit corporation by the Internal Revenue Service as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the 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 2015. During 2019 and 2018, 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. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 provides a single model for recognizing revenue arising from contracts with customers and supersedes current revenue recognition guidance. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services and will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance permits entities to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Foundation adopted the new standard on July 1, 2019. The effect of the adoption did not impact the Foundations' consolidated financial statements.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not For Profit Entities*, which improves the current net asset classification requirements and the information presented in financial statements and notes about a not for profit entity's liquidity, financial performance, and cash flows. The guidance requires entities to present two classes of net assets on the face of the consolidated statements of financial position: net assets with donor restrictions and net assets without donor restrictions. Further, the guidance provides for enhanced disclosures. The Foundation adopted the provisions of ASU 2016-14 as of July 1, 2018. As a result of the adoption, the Foundation's previously reported temporarily restricted net assets of \$1,021,314 and permanently restricted net assets of \$1,011,145 have been combined in net assets with donor restrictions as of June 30, 2018. In addition, \$31,875 of net assets were reclassified as of July 1, 2017 from net assets without donor restrictions to net assets with donor restrictions, representing unrealized losses on endowed net assets previously recorded against net assets without donor restrictions. As of June 30, 2018, the amount was \$21,151, of which \$10,724 of unrealized losses was reclassified between net asset classifications in the 2018 consolidated statement of activities.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides assistance in determining if a transaction should be accounted for as a contribution or as an exchange, as well as providing guidance in determining whether a contribution is conditional. The guidance should be applied on a modified prospective basis, although a retrospective application is permitted. The new standard is effective for the Foundation in fiscal year 2020. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its consolidated statement of financial position, statement of activities, and cash flows.

### **(1) Reclassification**

Certain reclassifications were made to prior year financials to conform to the 2019 presentation.

### **(2) Fair Value Investments**

The Foundation uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The tables below presents the balances of assets and liabilities measured at June 30, 2019 and 2018 at estimated fair value on a recurring basis:

		2019			
		Total	Level 1	Level 2	Level 3
<b>Assets:</b>					
Investments:					
Certificates of deposit, savings, and money market funds	\$	11,658	\$ 11,658	\$ —	\$ —
U.S. government securities and sovereign debt		35,173	—	35,173	—
International bonds		18,724	—	18,724	—
Corporate bonds		69,337	—	69,337	—
Common stock		459,786	425,370	—	34,416
Mutual funds – equity		147,842	147,842	—	—
Mutual funds – fixed income		130,383	130,383	—	—
Preferred stock		530	—	530	—
Commingled funds – public equity		332,924	—	332,924	—
Commingled funds – diversified real assets		37,190	—	37,190	—
Index funds – commodities		14,674	14,674	—	—
Index funds – public equity		209,088	209,088	—	—
Investments measured at net asset value <sup>(1)</sup> :					
Hedge funds		165,963	—	—	—
Limited partnerships		131,139	—	—	—
Temporary Investments:					
U.S. treasuries		119,464	—	119,464	—
Certificates of deposit and money funds		9,515	8,770	745	—
State government securities		27,357	—	27,357	—
Local government securities		29,384	—	29,384	—
Corporate bonds		165,050	—	165,050	—
Exchange traded funds – equity		122,133	122,133	—	—
Total		<u>\$ 2,237,314</u>	<u>\$ 1,069,918</u>	<u>\$ 835,878</u>	<u>\$ 34,416</u>
<b>Liabilities:</b>					
Deferred annuities payable	\$	16,448	\$ —	\$ 16,448	\$ —

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

- (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, 2019 and 2018.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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The fair values of the financial instruments shown in the above tables represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Investment money market funds and cash and cash equivalents:* Money market funds included with cash and cash equivalents and investment money market funds, including equity and fixed income are recorded at fair value using quoted market prices. These are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

*Certificates of Deposit:* Investments include certificates of deposit, savings, and other short-term investments, which are reported at face value plus accrued interest at the reporting date. These investments are classified as Level 2.

*Corporate bonds and government obligations:* Investments include fixed-income securities comprised of U.S. government securities, sovereign debt, and corporate bonds. Publicly traded fixed-income securities and funds are classified as Level 1 and valued based upon observable market prices on the reporting date. When quoted prices of identical investment securities in active markets are not available, the fair values for the investment securities are obtained primarily from pricing services; one evaluated price is received for each security. The fair values provided by the pricing services are estimated using matrix pricing or other pricing models, where the inputs are based on observable market inputs or recent trades of similar securities. Such investment securities are generally classified as Level 2.

*Equity securities:* Equity securities include common stock and exchanged traded funds, such as index funds. Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. These are classified as Level 1 securities as they are traded in an active market for which closing prices are readily available. The fair values of equity securities accounted for under the cost method (nonmarketable equity securities) are determined using market multiples derived from comparable companies. Under that approach, the identification of comparable companies requires significant judgment. Additionally, multiples might lie in ranges with a different multiple for each comparable company. The selection of where the appropriate multiple falls within that range also requires significant judgment, considering both qualitative and quantitative factors.

*Commingled funds:* Commingled funds including public equity and diversified real asset funds have readily determinable fair values. The balance of these funds are private funds that do not have a public proxy that can be used to price them. Price quotes for the underlying assets are available for identical assets but in markets that are not considered active. While trades occur, they are limited to once a month and as such limit the number of investors. The investors involved generally have longer term horizons and as such they are not considered to be active markets and are not as liquid as index funds. These funds are classified as Level 2.



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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*Alternative investments:* Alternative investments that do not have a readily determinable fair value includes investments in private equity and venture capital funds, natural resources, real estate funds, and hedge funds. These investments are valued based on the funds' net asset value, or its equivalent, as supplied by the fund managers and these valuations are used as a practical expedient to fair value. These investments are not included in the fair value hierarchy table.

*Closely held stock:* Investments in closely held stock are recorded at their estimated fair value which is based on net asset value of the respective company. The closely held stock is classified as Level 3 as these are securities without readily observable inputs or measures, rarely ever traded, and are calculated based on net asset value.

*Annuities payable:* Annuities payable value is based on the carrying value which management believes to approximate fair value since the inherent interest rates closely reflect current market rates, as such these are classified as Level 2.

The following table summarizes the changes in fair value of Level 3 investments for the years ended June 30, 2019 and 2018:

Balance, June 30, 2017	\$	27,164
Net unrealized gains		<u>3,417</u>
Balance, June 30, 2018		30,581
Net unrealized gains		<u>3,835</u>
Balance, June 30, 2019	\$	<u><u>34,416</u></u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### (3) Investments

Investments consist of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Investments stated at fair value:		
Certificates of deposit, savings, and money market funds	\$ 11,658	\$ 9,750
U.S. government securities and sovereign debt	35,173	38,311
International bonds	18,724	19,479
Corporate bonds	69,337	65,997
Common stock	459,786	515,833
Mutual funds – equity	147,842	86,528
Mutual funds – fixed income	130,383	126,854
Preferred stock	530	655
Limited partnerships	131,139	89,870
Commingled funds – public equity	332,924	335,843
Commingled funds – diversified real assets	37,190	38,929
Index funds – commodities	14,674	16,584
Index funds – public equity	209,088	209,493
Hedge funds	165,963	169,380
Investments stated at other than fair value:		
Real estate	27,435	27,627
Real estate mortgage and contracts	808	793
Other	2,062	1,904
Cash value of life insurance	2,840	2,294
Annuity contracts	–	158
	<u>\$ 1,797,556</u>	<u>\$ 1,756,282</u>
Temporary investments stated at fair value:		
U.S. treasuries	\$ 119,464	\$ 102,463
Certificates of deposit and money market funds	9,515	546
State government securities	27,357	26,212
Local government securities	29,384	30,687
Corporate bonds	165,050	138,861
Exchange traded funds – equity	122,133	101,584
Temporary investments stated at other than fair value:		
Real estate	24	24
	<u>\$ 472,927</u>	<u>\$ 400,377</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

The estimated value of hedge funds and limited partnerships was provided by the respective companies. For these alternative investments, the Foundation uses the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment. Below is a summary of investments accounted for at net asset value at June 30, 2019 and 2018:

2019				
	Net asset value	Unfunded commitments	*Redemption frequency (if currently eligible)	Redemption notice period
Private equity/venture capital	\$ 105,336	\$ 129,598	N/A	N/A
Natural resources	11,531	12,867	N/A	N/A
Real asset funds	14,272	10,341	N/A	N/A
Hedge funds:				
Domestic long/short	28,805	—	q/sa/a	90-360 days
Global long/short	31,252	—	q/sa/a	90-360 days
Multiple strategies	70,880	—	q/sa/a	90-360 days
Credit strategies	35,026	—	q/sa/a	90-360 days
	<u>\$ 297,102</u>	<u>\$ 152,806</u>		

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

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

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

The Foundation invests a portion of its assets in private investment limited partnerships that have predetermined fund lives. Generally, these funds have lives of up to 10 years and in certain cases may be extended for an additional 1-2 years upon approval by a majority of limited partners. Although capital may be returned to limited partners at any time during the fund life, it is generally anticipated that such distributions will commence several years into the fund life with a target of all capital being returned to investors by the end of the term. Each specific limited partnership is governed by an individual Limited Partnership Agreement which details liquidity terms and other provisions.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

Liquidity terms for hedge fund investments are governed by each specific funds' terms as outlined in each respective set of governing fund documents. On an aggregated bases, it is anticipated that 90% of capital would be returned within 12 months of redemption action, with the remainder of assets being returned within 36 months.

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, net of an allowance for uncollectible accounts and discounted to their present value. Pledges, net of discount to present value at 6% and allowance for doubtful accounts are due to be collected as follows as of June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Gross amount due in:		
One year or less	\$ 75,523	\$ 65,891
One to five years	144,182	139,425
More than five years	9,049	7,397
	<u>228,754</u>	<u>212,713</u>
Less discount to present value	19,988	19,047
	<u>208,766</u>	<u>193,666</u>
Less allowance for doubtful accounts	6,263	5,810
	<u>\$ 202,503</u>	<u>\$ 187,856</u>

The discount will be recognized as contribution income in years 2020 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 pledges.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### (5) Property and Equipment

Property and equipment at June 30, 2019 and 2018 are as follows:

	2019	2018
Land	\$ 204	\$ 8,314
Buildings	1,251	40,660
Leasehold improvements	3,581	3,578
Automobiles	169	168
Furniture, equipment, and software	10,620	10,362
	15,825	63,082
Less accumulated depreciation	11,238	12,626
Net property and equipment	\$ 4,587	\$ 50,456

During 2019, the Foundation donated certain assets, including a building and land, in the amount of \$44,241 to the University of Nebraska.

### (6) Split-Interest Agreements

The Foundation is the beneficiary of split-interest agreements in the form of charitable gift annuities, charitable remainder trusts, and pooled income funds. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rates used for the establishment of the liability was 2.8% for the years 2019 and 2018. In connection with certain agreements, the Foundation has committed to the payment of an annual annuity to the donor. Liabilities associated with these agreements as of June 30, 2019 and 2018 are \$16,448 and \$16,644, respectively, and have been reflected as deferred annuities payable on the consolidated statements of financial position. Annuity obligations are adjusted annual for actuarial changes in life expectancy. The increases and decreases to the liability are reflected as with donor or without donor restriction change in the value of split-interest agreements, which is consistent with the method used to initially record the contribution.

### (7) Net Assets with Donor Restrictions

Net assets are restricted by donors for various purposes in support of activities at the University of Nebraska, including the campuses at Lincoln, Kearney, Omaha, the Medical Center in Omaha, and Nebraska Medicine. The purposes include scholarships, fellowships, research, academic support, and campus building and improvements. Included in net assets with donor restriction 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. Net assets with donor restrictions include gifts contributed for a specified period or until the occurrence of some future event or unspent earnings on endowed funds.

The amounts of net assets with donor restrictions as of June 30, 2019 and 2018 are as follows:

	2019	2018
Temporarily restricted – charitable trusts and annuities	\$ 21,957	\$ 24,714
Temporarily restricted – available for specific purposes	828,610	801,995
Permanently restricted – endowment	1,230,007	1,184,599
	\$ 2,080,574	\$ 2,011,308

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

The Foundation had net assets without donor restrictions of \$54,990 and \$47,665 at the end of 2019 and 2018, respectively. Net assets of \$207,805 and \$178,569 were released from donor restrictions during 2019 and 2018 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

As a result of the adoption of ASU No. 2016-14, the Foundation reclassified \$31,875 of unrealized losses on endowment funds as of July 1, 2017, from net assets without donor restrictions to net assets with donor restrictions.

### (8) Financial Assets and Liquidity Resources

As of June 30, 2019, the Foundation's average month's operating cash on hand of approximately 10 months, based on normal expenditures.

The following table reflects the Foundation's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure because of contractual or donor-imposed restrictions within one year of the financial position date. Financial assets are considered unavailable when subject to donor-imposed restrictions or because the governing board has directed funds be invested as board designated or quasi endowments.

	<b>2019</b>
Financial assets:	
Cash and cash equivalents	\$ 33,092
Temporary investments	472,927
Pledges	202,503
Investments	1,797,556
Financial assets, at the end of the year	<u>2,506,078</u>
Less those unavailable for general expenditure within one year due to:	
Permanent endowment net assets	\$ 1,230,007
Deposits held in custody for others	339,491
Other nonpermanently endowed donor restricted fund	850,567
	<u>2,420,065</u>
	<u>\$ 86,013</u>

The Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

### (9) Functional Expenses

The Foundation solicits and distributes funds for the benefit of the University. Expenses related to those activities providing these services for the years ended June 30, 2019 and 2018 are as follows:

<b>2019</b>				
	<b>Program support</b>	<b>Management and general</b>	<b>Fundraising</b>	<b>Total</b>
Payments to benefit the University	\$ 199,691	—	—	199,691
Contributions to other charities	8,068	—	—	8,068
Salaries and benefits	—	6,959	14,164	21,123
Office expense	—	361	718	1,079
Office rent and utilities	—	594	1,183	1,777
Professional services	—	574	779	1,353
Dues and subscriptions	—	57	113	170
Travel and conferences	—	367	730	1,097
Cultivation expense	—	—	1,426	1,426
Miscellaneous expense	—	51	235	286
Paid to beneficiaries	—	2,311	—	2,311
Depreciation	—	537	1,406	1,943
Total expense	<u>\$ 207,759</u>	<u>11,811</u>	<u>20,754</u>	<u>240,324</u>
<b>2018</b>				
	<b>Program support</b>	<b>Management and general</b>	<b>Fundraising</b>	<b>Total</b>
Payments to benefit the University	\$ 180,552	—	—	180,552
Contributions to other charities	173	—	—	173
Salaries and benefits	—	7,043	13,213	20,256
Office expense	—	421	834	1,255
Office rent and utilities	—	573	1,137	1,710
Professional services	—	809	871	1,680
Dues and subscriptions	—	47	94	141
Travel and conferences	—	347	687	1,034
Cultivation expense	—	—	1,574	1,574
Miscellaneous expense	—	51	228	279
Paid to beneficiaries	—	2,626	—	2,626
Depreciation	—	544	1,415	1,959
Total expense	<u>\$ 180,725</u>	<u>12,461</u>	<u>20,053</u>	<u>213,239</u>

Expenses are allocated to the various functions based on either the underlying purpose of the expense or allocated based on the percentage of time employees spend on each function for those that can be attributable to more than one function.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### (10) 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 5,600 individual funds established for a variety of purposes. The Foundation holds endowment funds for support of its programs and operations. As required by U.S. GAAP, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The 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 net assets with permanent donor restrictions 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 net assets with temporary donor restrictions 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



# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

Endowment net asset composition by type of fund as of June 30, 2019 and 2018 is as follows:

	<b>2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	1,407,724	1,407,724
Board-designated endowment funds	28,030	—	28,030
Endowment totals	<u>\$ 28,030</u>	<u>1,407,724</u>	<u>1,435,754</u>

  

	<b>2018</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	1,371,460	1,371,460
Board-designated endowment funds	27,047	—	27,047
Endowment totals	<u>\$ 27,047</u>	<u>1,371,460</u>	<u>1,398,507</u>

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<b>2019</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 27,047	1,371,460	1,398,507
Contributions	885	39,189	40,074
Investment income, net of expenses	—	9,671	9,671
Realized and unrealized gains, net	1,284	43,959	45,243
Amounts appropriated for expenditures	(1,186)	(56,555)	(57,741)
Endowment net assets, end of year	<u>\$ 28,030</u>	<u>1,407,724</u>	<u>1,435,754</u>

  

	<b>2018</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (5,302)	1,314,518	1,309,216
Adoption of ASU 2016-14	31,875	(31,875)	—
Endowment net assets, beginning of year, as restated	26,573	1,282,643	1,309,216
Contributions	904	47,838	48,742
Investment income, net of expenses	—	4,869	4,869
Realized and unrealized gains, net	758	90,524	91,282
Amounts appropriated for expenditures	(1,188)	(54,414)	(55,602)
Endowment net assets, end of year	<u>\$ 27,047</u>	<u>1,371,460</u>	<u>1,398,507</u>

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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

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

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

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

## **(11) Lease Commitments**

The minimum rentals for operating leases for office space with guaranteed terms for the five fiscal years after June 30, 2019 are as follows:

2020	\$ 1,148
2021	1,117
2022	1,101
2023	667
2024	149
Thereafter	—

## **(12) 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 was paid in full in 2019. In addition, the Foundation agreed to lease certain space back over 36 months at a nominal amount. During the years ended June 30, 2019 and 2018, the Foundation recognized imputed interest of \$441 and \$588, respectively, related to the interest free loan.

# THE UNIVERSITY OF NEBRASKA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 and 2018 (Thousands)

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### **(13) 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, 2019 and 2018 were \$1,089 and \$1,048, respectively.

### **(14) 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.

### **(15) Subsequent Events**

In preparing the consolidated financial statements, the Foundation has evaluated subsequent events for potential recognition or disclosure through September 27, 2019, the date the consolidated financial statements were available to be issued.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

#### Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component unit of the University of Nebraska (University) (a component unit of the State of Nebraska) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 13, 2019. 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 13, 2019.

### **Purpose of this Report**

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

Lincoln, Nebraska  
December 13, 2019

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Mark Avery, CPA  
Assistant Deputy Auditor