



***The University of Nebraska
Facilities Corporation***
(A Component Unit of the University of Nebraska)

*Financial Statements for the Years Ended
June 30, 2014 and 2013
Independent Auditors' Report*

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

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Independent Auditors' Report

The Board of Regents
University of Nebraska:

We have audited the accompanying statements of net position (deficit) of the University of Nebraska Facilities Corporation (UNFC), a component unit of the University of Nebraska, as of June 2014 and 2013, and the related statements of revenues, expenses, and changes in net position (deficit), and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the UNFC's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position (deficit) of the University of Nebraska Facilities Corporation as of June 2014 and 2013, and the changes in its financial position, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

KPMG LLP

Lincoln, Nebraska
October 31, 2014

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (Dollar Amounts in Thousands)

Introduction

The following is an overview of the financial position and changes in net position (deficit) of the University of Nebraska Facilities Corporation (UNFC). Management has prepared the following discussion and it is intended to be read in conjunction with the financial statements and related notes, which follow this section.

UNFC was organized by the Board of Regents of the University of Nebraska (University) in 1930 and is a component unit of the University. Its primary purpose is to provide a bond financing vehicle for projects that cannot be bonded by the University under the State of Nebraska constitution, which generally limits University of Nebraska bonds to revenue-backed projects for student housing, parking, student unions, student health, and athletic facilities. Accordingly, UNFC constructs defined projects that are funded through bond proceeds, with repayment from specific state capital appropriations, university contributions, and donor gifts. The bonds are typically secured by a pledge of the University's cash funds, with the University entering into a lease purchase or other financing arrangement with UNFC in amounts consistent with required debt service. The facilities are not reflected in the accompanying statements as they are transferred to the University and reported in the University's financial statements.

The financial statements include the activities related to the following projects and bond issues for the years ended June 30, 2014 and 2013:

Facility	Financing Objective
UNMC – Cancer Center (Series 2014A Bonds)	Construction of a state of the art cancer research center
UNMC – Qualified Energy Conservation Bond (Series 2014B Bonds)	Upgrades to UNMC energy management monitoring systems
UNO/Community Facility (Series 2013A &B)	Construction of an arena for sports and community events
UNMC - Cancer Center (Series 2013 Bonds)	Construction of a state of the art cancer research tower
UNMC - Eye Institute (Series 2011 Bonds)	Construction of an ophthalmology and visual sciences research and clinical facility
NCTA Education Center/Student Housing Project (Series 2011 Bonds)	Construction of instruction facilities and and student housing
UNMC - OPPD Exchange Project (Series 2010 Bonds)	Construction of new buildings and surface parking space in exchange for other property
Deferred Maintenance Project (Series 2009 Bonds)	Defined deferred maintenance projects

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (Dollar Amounts in Thousands)

Deferred Maintenance Project (Series 2006 Bonds)	Defined deferred maintenance projects
UNL Library Storage Project (Series 2004 Bonds)	Construction of a library storage facility
UNL Alexander Building Project (Series 2003 Bonds)	Purchase/renovation of an office building

Financial Highlights

UNFC issued three new bond issues in fiscal 2014. In April 2014, UNFC issued \$65,965 of UNMC Cancer Center Bonds, Series 2014A and \$4,325 of UNMC Qualified Energy Conservation Bonds, Series 2014B. The Series 2014A Bonds provide partial bridge financing for donor pledge payments directed toward the new cancer center and the Series 2014B Bonds finance upgrades to the UNMC campus energy management monitoring systems.

In November 2013, UNFC issued \$37,385 of UNO/Community Facility (Arena) Series 2013A Bonds and \$16,545 Series 2013B Bonds. The Series 2013A Bonds provide financing payable from revenues derived from the use of the facility and the Series 2013B Bonds provide bridge financing for an approximately equal amount of donor pledges.

University contributions were \$18 million in 2014, \$22 million in 2013, and \$26 million in 2012. The level of contributions is driven by annual debt service payments. Bond obligations payable were \$310 million in 2014, \$223 million in 2013, and \$210 million in 2012. This increase reflects the bond issuances made during 2014 and 2013. Non-current cash and cash equivalents were \$114 million in 2014, \$48 million in 2013, and \$34 million in 2012. The increase is due to the proceeds received from the new bond issuances in 2014 and 2013 that have not been expended.

Revenue sources, including state appropriations, designated tuition revenues, private gifts, realized energy savings, and other sources supporting other outstanding borrowings remained strong:

- The State of Nebraska legislature has reaffirmed and appropriated funds for their portion of the debt service pertaining to the Deferred Maintenance Projects (Series 2006 and 2009 Bonds) and the NCTA Education Center Project, Series 2011 Bonds.
- The University of Nebraska Foundation continues to receive funds from donor gifts pledged toward the funding of the Eye Institute, Series 2011 Bonds and, the Cancer Center Project, Series 2013 and 2014A Bonds.
- Funds flowing from internal University sources continue to meet expectations allowing the service of debt obligations in their normal course.

UNFC had sufficient revenues to cover debt service for each bond issue and was in compliance with all covenants at June 30, 2014 and 2013.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (Dollar Amounts in Thousands)

Using the Financial Statements

The financial statements of UNFC include the Statements of Net Position (Deficit), the Statements of Revenues, Expenses, and Changes in Net Position (Deficit), and the Statements of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The statements are presented on a combined basis to focus on the combined acquisition, construction, and related financing activities of the entity as a whole.

The Statements of Net Position (Deficit) include the trustee accounts of the various bond issues. The Statements of Revenues, Expenses, and Changes in Net Position (Deficit) depict the non-operating revenues and expenses, which provide resources for the purchase, construction, and renovation of designated facilities and for debt service. The Statements of Cash Flows show the sources and uses of cash from issuance of bonds, investments, and trustee activity, and other capital and financing activities.

The Statements

Condensed statements in an all-inclusive format are presented on the next page for UNFC as of and for the years ended June 30, 2014, 2013, and 2012. The reader is referred to footnote A to the statements describing the restatement of July 1, 2012 net position for fiscal year 2013.

Current assets consist of resources held by the bond trustee that are designated or restricted by the bond covenants for current maturities of bonds and related interest. Non-current assets consist primarily of investments that will be either liquidated to fund construction costs or remain invested in the several bond reserve accounts. The bond reserve account balances for each of the separate bond issues are included in the debt service allocation and meet the individual reserve required by each resolution.

The Condensed Statements of Revenues, Expenses, and Changes in Net Position (Deficit) include investment income, revenues designated for debt service, interest expense, and other capital-related revenues and expenses. The decrease in net position is primarily due to the expenditure of bond proceeds and transfers to the campuses relating to the UNMC Eye Institute, the Deferred Maintenance Project Series 2009, the UNO/Community Facility Project, and the Cancer Center Project Bonds, Series 2013, Series 2014A, and Series 2014B, net of capital grants and gifts, capital appropriations, and University contributions for debt service.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (Dollar Amounts in Thousands)

Condensed Statements of Net Position (Deficit)

	June 30		
	2014	2013	2012
Assets:			
Current assets	\$ 36,599	\$ 46,015	\$ 35,884
Non-current assets	173,855	75,666	80,338
Total assets	<u>210,454</u>	<u>121,681</u>	<u>116,222</u>
Liabilities:			
Current liabilities	42,174	42,507	26,984
Non-current liabilities	283,857	187,735	197,180
Total liabilities	<u>326,031</u>	<u>230,242</u>	<u>224,164</u>
Net position (deficit):			
Restricted:			
Expendable			
Plant construction	124,918	40,123	28,160
Debt service	51,498	68,864	74,421
Unrestricted	(291,993)	(217,548)	(210,523)
Total net position (deficit)	<u>\$ (115,577)</u>	<u>\$ (108,561)</u>	<u>\$ (107,942)</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position (Deficit)

	Year Ended June 30		
	2014	2013	2012
Non-operating revenues (expenses):			
University contributions	\$ 17,830	\$ 21,510	\$ 26,134
Capital appropriations	11,820	11,800	11,802
Capital grants and gifts	33,629	1,090	3,858
Investment income	108	274	600
Increase (decrease) in fair value of investments	108	(310)	(170)
Interest on bond obligations payable	(5,670)	(5,930)	(6,434)
Net retirement of capital lease obligation receivable	(18,212)	(6,962)	(1,180)
Administrative and other expenses	(1,419)	(42)	(130)
	<u>38,194</u>	<u>21,430</u>	<u>34,480</u>
Transfers to the University for capital projects	<u>(45,210)</u>	<u>(21,569)</u>	<u>(25,975)</u>
Increase (decrease) in net position (deficit)	(7,016)	(139)	8,505
Net position (deficit), beginning of year	<u>(108,561)</u>	<u>(108,422)</u>	<u>(116,447)</u>
Net position (deficit), end of year	<u>\$ (115,577)</u>	<u>\$ (108,561)</u>	<u>\$ (107,942)</u>

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (Dollar Amounts in Thousands)

Economic Outlook and Subsequent Events That Will Affect the Future

It is management's belief that UNFC will continue to realize sufficient resources to cover debt service. The major sources of revenues would be largely unaffected by pressure on budgets at the State of Nebraska. This, combined with strength and performance of pledges at the University of Nebraska Foundation supporting private gift-funded projects and a stable enrollment in students, give rise to confidence in the future stability of UNFC.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

STATEMENTS OF NET POSITION (DEFICIT) JUNE 30, 2014 AND 2013 (in thousands)

ASSETS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents, held by trustee - restricted	\$ 31,685	\$ 24,511
Investments held by trustee - restricted	1,745	2,460
Accrued interest receivable	92	30
Capital lease obligation receivable	3,077	19,014
Total current assets	<u>36,599</u>	<u>46,015</u>
NON-CURRENT ASSETS:		
Cash and cash equivalents, held by trustee - restricted	113,884	48,272
Investments held by trustee - restricted	47,487	12,635
Capital lease obligation receivable, net of current portion	12,484	14,759
Total non-current assets	<u>173,855</u>	<u>75,666</u>
Total assets	<u>210,454</u>	<u>121,681</u>
LIABILITIES AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	8,064	1,513
Accrued interest payable	4,002	3,357
Due to University of Nebraska	4,031	2,017
Bond obligations payable	26,077	35,620
Total current liabilities	<u>42,174</u>	<u>42,507</u>
NON-CURRENT LIABILITIES:		
Bond obligations payable, net of current portion	<u>283,857</u>	<u>187,735</u>
Total non-current liabilities	<u>283,857</u>	<u>187,735</u>
Total liabilities	<u>326,031</u>	<u>230,242</u>
NET POSITION (DEFICIT):		
Restricted:		
Expendable:		
Plant construction	124,918	40,123
Debt service	51,498	68,864
Unrestricted	<u>(291,993)</u>	<u>(217,548)</u>
Total net position (deficit)	<u>\$ (115,577)</u>	<u>\$ (108,561)</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
NON-OPERATING REVENUES (EXPENSES):		
Capital grants and gifts	\$ 33,629	\$ 1,090
University contributions	17,830	21,510
Capital appropriations	11,820	11,800
Additions to capital lease obligation receivable	-	1,488
Investment income	108	274
Increase (decrease) in fair value of investments	108	(310)
Retirement of capital lease obligation receivable	(18,212)	(8,450)
Interest and amortization on bond obligations payable	(5,670)	(5,930)
Administrative and other expenses	<u>(1,419)</u>	<u>(42)</u>
Net non-operating revenues and expenses	38,194	21,430
TRANSFERS:		
Transfers to the University for capital projects	<u>(45,210)</u>	<u>(21,569)</u>
Increase (decrease) in net position (deficit)	(7,016)	(139)
NET POSITION (DEFICIT):		
Beginning of year	<u>(108,561)</u>	<u>(108,422)</u>
End of year	<u>\$ (115,577)</u>	<u>\$ (108,561)</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	\$ 124,220	\$ 31,205
Capital grants and gifts	33,629	1,090
University contributions	17,830	21,510
Premium on issuance of bonds	14,237	3,115
Capital appropriations	11,820	11,800
Principal paid on bond obligations payable	(49,410)	(26,825)
Purchases of capital assets	(34,771)	(19,731)
Interest paid on bond obligations payable	(9,364)	(8,906)
Bond issuance costs	(1,409)	(197)
Administrative expenses	(10)	(47)
Net cash flows from capital and related financing activities	<u>106,772</u>	<u>13,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	8,470	17,729
Interest on investments	206	312
Purchases of investments	(42,662)	(14,865)
Net cash flows from investing activities	<u>(33,986)</u>	<u>3,176</u>
INCREASE IN CASH AND CASH EQUIVALENTS	72,786	16,190
CASH AND CASH EQUIVALENTS RESTRICTED, Beginning of year	<u>72,783</u>	<u>56,593</u>
CASH AND CASH EQUIVALENTS RESTRICTED, End of year	<u>\$ 145,569</u>	<u>\$ 72,783</u>
NON-CASH ITEM:		
Increase (decrease) in fair value of investments	\$ 108	\$ (310)

See accompanying notes to financial statements.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Nebraska Facilities Corporation (UNFC) is a Nebraska non-profit corporation organized by the Board of Regents of the University of Nebraska (Regents) in 1930 to finance buildings for the University of Nebraska (the University). The Regents serve as the UNFC's Board of Directors. UNFC is a component unit of the University.

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
- Financial statements including Statement of Net Position (Deficit); Statement of Revenues, Expenses, and Changes in Net Position (Deficit), and Statement of Cash Flows
- Notes to financial statements

UNFC follows all GASB pronouncements.

Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires that debt issuance costs should be reported as an expense in the period incurred. This guidance was effective and was adopted by UNFC for the year ended June 30, 2014, and required UNFC to write off all prior unamortized debt issuance costs. Beginning net position was restated as follows to adopt GASB Statement No. 65:

	<u>Combined</u>
Net Position (Deficit), July 1, 2013, as previously reported	\$ (107,943)
Change in accounting principle adjustment required to adopt GASB No. 65	<u>(479)</u>
Net Position (Deficit), July 1, 2013, as restated	<u>\$ (108,422)</u>

Basis of Presentation – The financial statements are presented on the accrual basis and include all accounts cited in the resolutions issued by UNFC in conjunction with the following:

- UNMC Cancer Research Center Project (Series 2014A)
- UNMC Qualified Energy Conservation Bond (Series 2014B)
- UNO/Community Facility Arena (Series 2013 Bonds)
- UNMC Cancer Research Center Project (Series 2013 Bonds)
- Eye Institute Project (Series 2011 Bonds)
- NCTA Education Center Project/Student Housing Project (Series 2011 Bonds)
- OPPD Exchange Project (Series 2010 Bonds)
- Deferred Maintenance Project (Series 2009 Bonds)
- Health Professions Futures Project (Series 2009 Bonds)
- Research Center Project (Series 2007 Bonds)
- Deferred Maintenance Project (Series 2006 Bonds)

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

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- Library Storage Project (Series 2004 Bonds)
- Alexander Building Project (Series 2003 Bonds)

As required by the resolutions, separate financial records are maintained for transactions relating to the bonds and to the revenues and expenses of each project.

Assets relating to capital project costs have not been reflected in the accompanying financial statements as these assets have been transferred to the University and are reported in the University's financial statements. Interest incurred during the construction phase of capital projects is included in the capitalized value of the assets constructed and transferred to the University. The total interest expense capitalized during 2014 and 2013 was \$1,877 and \$1,366, respectively.

Classification of Revenues – UNFC has classified its revenues as non-operating revenues according to the following criteria:

Non-operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions.

Use of 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 amount 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.

Cash and Cash Equivalents, Held by Trustee - Restricted – This caption includes cash and investments, with an original maturity of three months or less when purchased, held by the bond trustee.

Investments Held By Trustee - Restricted – Investments are held by the bond trustee and are stated at fair value and consist of U.S. Government securities that are uninsured, unregistered, and are held by the trust departments of the various financial institutions acting as trustee. Securities that are publicly traded are valued based upon quoted market prices. Investments that do not have an established market are reported at estimated fair value. These investments are to be expended for related projects.

Capital Grants and Gifts – Capital grants and gifts represent donor gifts designated for the Eye Institute, the UNO/Community Arena, and the UNMC Cancer Center. These gifts flow to UNFC from the University of Nebraska Foundation.

University Contributions – University contributions include payments of designated tuition revenues from the University that are committed for repayment of the Deferred Maintenance Project Bonds, payments from UNMC that are committed to the Eye Institute Project, OPPD Project, and the Cancer Center Project, and payments from the University of Nebraska-Lincoln (UNL) that are committed to the NCTA Project, Library Storage Project, and the Alexander Building Project.

Capital Appropriations – This source of funds represents a designated appropriation of funds from the State of Nebraska to pay debt service for the Deferred Maintenance Project Bonds and the NCTA Education Center Project.

Capital Lease Obligation Receivable – This receivable represents payments due from UNL and UNMC for capital assets acquired as projects are completed and as construction progresses, which UNFC leases to UNL and UNMC under capital lease purchases, including the UNMC OPPD Project, the UNL NCTA Projects, the Library Storage, and

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

Alexander Building. Rent payments are received as needed for debt service as defined by each respective agreement. The current portion of the lease obligation receivable approximates the debt service due on the respective bond issue in the following year. Annual additions or payments in excess of the capital lease obligation are reflected as additions to or retirement of capital lease obligation receivable.

Amortization of Bond Financial Expense and Bond Premium or Discount – Premiums and discounts are being amortized or accreted to interest expense on a method that approximates the level-yield method. The amortization is included in administrative and other expenses in the Statements of Revenues, Expenses, and Changes in Net Position (Deficit).

Tax Status – UNFC qualifies as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code. 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.

B. INVESTMENTS HELD BY TRUSTEE

Investments are as follows as of June 30, 2014:

	Fair Value	Investment Maturities (in years)				Concentration
		Less Than 1	1-2	3-5	6-7	
Investment type:						
Debt securities:						
U.S. Treasury Note	\$ 4,314	\$ 4,314	\$ -	\$ -	\$ -	9%
Federal Farm Credit Bank	3,471	-	3,471	-	-	6%
Federal Home Loan Bank	38,214	35,939	2,275	-	-	78%
Federal Home Mortgage Association	3,233	-	2,429	804	-	7%
	<u>\$ 49,232</u>	<u>\$ 40,253</u>	<u>\$ 8,175</u>	<u>\$ 804</u>	<u>\$ -</u>	<u>100%</u>

Investments are as follows as of June 30, 2013:

	Fair Value	Investment Maturities (in years)				Concentration
		Less Than 1	1-2	3-5	6-7	
Investment type:						
Debt securities:						
U.S. Treasury Note	\$ 337	\$ -	\$ 337	\$ -	\$ -	2%
Federal Farm Credit Bank	3,449	-	953	2,496	-	23%
Federal Home Loan Bank	3,133	-	2,346	-	787 (1)	21%
Federal Home Mortgage Association	8,176	-	5,759	2,417	-	54%
	<u>\$ 15,095</u>	<u>\$ -</u>	<u>\$ 9,395</u>	<u>\$ 4,913</u>	<u>\$ 787</u>	<u>100%</u>

(1) These bonds are callable in less than two years.

Interest Rate Risk – UNFC 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.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, UNFC will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. UNFC’s deposits and investments are exposed to custodial credit risk, as they are unregistered and uninsured.

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

	2014		2013	
	Fair Value	Quality Ratings	Fair Value	Quality Ratings
		Aaa		Aaa
Investment type:				
Debt securities:				
U.S. Treasury Note	\$ 4,314	\$ 4,314	\$ 337	\$ 337
U.S. Agencies	44,918	44,918	14,758	14,758
	<u>\$ 49,232</u>	<u>\$ 49,232</u>	<u>\$ 15,095</u>	<u>\$ 15,095</u>

Concentration of Credit Risk – UNFC places no limit on the amount that may be invested in any one issuer. Concentration percentages by investment type are included in the above tables.

C. BOND OBLIGATIONS PAYABLE

Bond obligations payable are as follows as of June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2014	<u>\$ 214,765</u>	<u>\$ 124,220</u>	<u>\$ 49,410</u>	<u>\$ 289,575</u>	<u>\$ 23,975</u>
2013	<u>\$ 210,385</u>	<u>\$ 31,205</u>	<u>\$ 26,825</u>	<u>\$ 214,765</u>	<u>\$ 35,620</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

	Interest Rates	Installments	Principal Amount Outstanding	
			2014	2013
UNMC Cancer Center, Series 2014A	4.00 - 5.00%	\$3,415 - 17,410	\$ 65,965	\$ -
UNMC Cancer Center, Series 2014B	2.50 - 4.25%	370 - 510	4,325	-
UNMC Cancer Center, Series 2013	4.00%	3,010 - 6,980	31,205	31,205
UNO/Community Facility Project, Series 2013A&B	1.18 - 5.00%	830 - 23,055	53,930	-
Eye Institute Project, Series 2011	2.00 - 4.59%	3,000 - 14,740	17,740	17,740
NCTA Educ. Center/Student Housing, Series 2011	2.25 - 5.50%	85 - 1,645	9,275	9,835
OPPD Exchange Project, Series 2010	2.50 - 3.00%	1,535 - 1,540	4,610	6,150
Deferred Maintenance Project, Series 2009	3.50 - 4.66%	6,670 - 7,530	28,360	35,170
Health Professions Futures Project, Series 2009			-	18,235
Research Center Project, Series 2007			-	13,790
Deferred Maintenance Project, Series 2006	5.00%	8,615 - 11,550	70,165	78,370
Library Storage Project, Series 2004	4.30 - 5.00%	145 - 565	2,330	2,470
Alexander Building Project, Series 2003	4.25 - 5.00%	135 - 205	1,670	1,800
Subtotal bonds payable			\$ 289,575	\$ 214,765
Unamortized bond premium			21,331	9,172
Unamortized bond discount			(972)	(582)
Total bonds payable			<u>\$ 309,934</u>	<u>\$ 223,355</u>

Bond Resolutions

General – On September 9, 1983, the UNFC approved a resolution establishing the general requirements for the issuance of bonds. Subsequent resolutions, bond issuances, and related maturities, terms, and redemption features are detailed below.

The 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 bonds do not constitute debt of the Board of Regents of the University of Nebraska but shall be payable solely out of moneys derived from designated tuition revenues, legislative appropriations, donor gifts, and UNL and UNMC lease payments. The Board has pledged certain cash balances toward debt service on the bonds should sufficient revenues not be available. Pledged cash balances were \$491,854 and \$496,000 at June 30, 2014 and 2013, respectively.

The bond resolutions specify the funds that need to be established and the required transfers between funds. The bond resolutions also require that specified amounts be deposited with the Trustee for certain funds. At June 30, 2014 and 2013, the UNFC is in compliance with those requirements.

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

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FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

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

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

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

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

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

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

The Cancer Center consists of the construction of a Cancer Research Center tower at UNMC at a total estimated cost of \$110,000 (the 2013 Bonds financed a portion of the larger \$370 million Comprehensive Cancer Center noted above for the Cancer Research Center 2014 Bonds). The bond proceeds will provide interim financing for approximately \$31,205 of donor pledge payments. The remainder of the construction costs will be funded by a State of Nebraska capital appropriation of \$50,000 and donations received to date.

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

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

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

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

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

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

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

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

UNMC – OPPD Exchange Project (“The Exchange Project”) – In 2010, the UNFC authorized the issuance of \$9,230 of Series 2010 Bonds, dated February 3, 2010.

The Board of Regents and the Omaha Public Power District (“OPPD”) entered into an exchange agreement in 2008 that provides for the Board to acquire certain OPPD property in exchange for specified Board property and improvements to be constructed on it. The Exchange Project was created to construct the improvements to the Board property and facilitate the property exchange with OPPD.

Principal and interest payments will come from lease payments received from UNMC. The Bonds are not redeemable prior to maturity.

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

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

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

University of Nebraska Medical Center Health Professions Future (“The 2009 Project”) – In 2009, the UNFC authorized the issuance of \$26,035 of Series 2009 Bonds, dated March 25, 2009.

The 2009 Project is the construction of the College of Public Health building, an addition to the College of Nursing, and a Geriatric Center building at the UNMC campus. The bond proceeds will be used to provide interim financing for approximately \$36,000 of donor pledge payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately \$39 million.

UNMC obtained pledges through the University of Nebraska Foundation that when augmented by other funds UNMC has available, will be sufficient to pay principal and interest on the bonds. The pledges will be received in installments through 2017.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

The Bonds are not redeemable prior to maturity. The 2009 Project provides that if, at any time, the assigned pledged receipts are insufficient to pay principal and interest of the Series 2009 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

University of Nebraska Medical Center Research Center Project (“The 2007 Project”) – In 2008, the UNFC authorized the issuance of \$23,630 of Series 2007 Bonds, dated December 19, 2007.

The 2007 Project is the construction of the Research Center of Excellence II. The bond proceeds will be used to provide interim financing for approximately \$22,000 of donor pledge payments. The remainder of the project will be funded by other available University funds at a total project cost of approximately \$74,000.

UNMC obtained pledges through the University of Nebraska Foundation that when augmented by other funds UNMC has available, will be sufficient to pay principal and interest on the bonds. The pledges will be received in installments through 2012.

Bonds maturing on or after February 15, 2018 are redeemable at par plus accrued interest. The 2007 Project provides that if, at any time, the assigned pledged receipts are insufficient to pay principal and interest of the Series 2007 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

Deferred Maintenance Project (“The 2006 Project”) – UNFC authorized the issuance of \$110,970 of Deferred Maintenance Bonds, Series 2006 Bonds, dated August 15, 2006.

The 2006 Project was created for the purpose of paying the construction costs for major renewal and renovation projects at each of the four University campuses.

Principal and interest payments will be paid from appropriations by the State of Nebraska and matched by specified tuition revenues. Bonds maturing after July 15, 2017 are redeemable at par plus accrued interest.

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

The library storage and retrieval facility provides a climate-controlled environment for the library’s print volumes and other documents. The strictly controlled temperature, humidity, and air quality minimizes the deterioration of the books and other documents.

Principal and interest payments will come from lease payments received from UNL. Bonds maturing after July 15, 2014 are redeemable at par plus accrued interest. The 2004 Project states that if, at any time, the assigned revenues are insufficient to pay principal and interest of the Series 2004 Bonds as they become due, the deficiency will be paid from the University Cash Fund or other funds of the Board of Regents available for such purpose.

Alexander Building Project (“The 2003 Project”) – In 2003, the UNFC authorized the issuance of \$2,935 of Series 2003 Bonds, dated March 6, 2003.

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

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

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

University of Nebraska Medical Center Research Center Project (“The 2002 Project”) – In 2002, the UNFC authorized the issuance of \$56,695 of Series 2002 Bonds, dated February 15, 2002. The 2002 Project was created for the purpose of paying a portion of the cost of construction of the Research Center of Excellence (now named the Durham Center) and a multilevel parking structure at UNMC.

On February 15, 2012, UNFC called the remaining outstanding Series 2002 Bonds of \$21,215 at par plus accrued interest as of the redemption date. There was no gain or loss on the redemption of these bonds.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

Annual Maturities – All Projects – Annual maturities of principal and interest are as follows:

	Cancer Center Project Series 2014A		Cancer Center Project Series 2014B		UNO/Community Arena Project Series 2013	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ -	\$ 2,608	\$ -	\$ 132	\$ -	\$ 1,965
2016	-	3,130	-	158	4,385	1,965
2017	-	3,130	-	158	8,600	1,913
2018	5,415	3,130	-	158	5,420	1,772
2019	11,410	2,913	-	158	830	1,665
2020-2024	49,140	7,929	1,970	681	7,045	7,524
2025-2029	-	-	2,355	299	27,650	6,090
	<u>\$ 65,965</u>	<u>\$ 22,840</u>	<u>\$ 4,325</u>	<u>\$ 1,744</u>	<u>\$ 53,930</u>	<u>\$ 22,894</u>

	Cancer Center Project Series 2013		Eye Institute Project Series 2011		NCTA Project Series 2011	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,010	\$ 1,248	\$ 3,000	\$ 736	\$ 570	\$ 375
2016	6,130	1,128	-	676	580	362
2017	8,375	883	-	676	600	350
2018	6,710	548	14,740	677	615	330
2019	6,980	278	-	-	630	310
2020-2024	-	-	-	-	3,580	1,152
2025-2029	-	-	-	-	2,000	335
2030-2035	-	-	-	-	700	141
	<u>\$ 31,205</u>	<u>\$ 4,085</u>	<u>\$ 17,740</u>	<u>\$ 2,765</u>	<u>\$ 9,275</u>	<u>\$ 3,355</u>

	OPPD Exchange Project Series 2010		Deferred Maintenance Project Series 2009		Deferred Maintenance Project Series 2006	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,540	\$ 126	\$ 6,960	\$ 1,107	\$ 8,615	\$ 3,293
2016	1,535	88	7,200	821	9,050	2,851
2017	1,535	46	7,530	484	9,500	2,388
2018	-	-	6,670	156	9,975	1,901
2019	-	-	-	-	10,475	1,389
2020-2024	-	-	-	-	22,550	1,141
	<u>\$ 4,610</u>	<u>\$ 260</u>	<u>\$ 28,360</u>	<u>\$ 2,568</u>	<u>\$ 70,165</u>	<u>\$ 12,963</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

	Library Storage Project Series 2004		Alexander Building Project Series 2003	
	Principal	Interest	Principal	Interest
2015	\$ 145	\$ 108	\$ 135	\$ 77
2016	150	102	140	71
2017	155	95	150	64
2018	165	88	155	57
2019	170	81	160	50
2020-2024	980	268	930	121
2025-2029	565	14	-	-
	<u>\$ 2,330</u>	<u>\$ 756</u>	<u>\$ 1,670</u>	<u>\$ 440</u>

	Total Combined Maturities, all Bond issues		
	Principal	Interest	Total
2015	23,975	11,775	35,750
2016	29,170	11,352	40,522
2017	36,445	10,187	46,632
2018	49,865	8,817	58,682
2019	23,675	6,566	30,241
2020-2024	93,175	19,094	112,269
2025-2029	32,570	6,738	39,308
2030-2034	565	134	699
2035	135	7	142
	<u>\$ 289,575</u>	<u>\$ 74,670</u>	<u>\$ 364,245</u>

D. INSURANCE

The October 1, 1983 agreement and subsequent agreements require the Board of Regents of the University of Nebraska to carry insurance in amounts sufficient to provide for the cost of construction on any of the buildings. The facilities are included under the blanket policy of the University for amounts in excess of \$500. Amounts up to \$500 are paid by the University's Self-Insurance Trust, which is held by a trustee. UNFC is not responsible for contributing to this Trust. The University has established a program to provide for protection against various liabilities including property losses for amounts not covered by contracts with outside insurers.

E. DUE TO UNIVERSITY

The amount due to the University represents construction expenses incurred by the campuses that UNFC will reimburse from bond proceeds for designated UNFC projects.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 and 2013 (in thousands)

F. REMAINING BOND PROCEEDS TO BE SPENT

The remaining bond proceeds of \$142,808 at June 30, 2014 will be spent on the construction of several facilities. The projects are as follows:

UNMC Cancer Center	\$ 93,207
UNO/Community Arena	43,098
Deferred Maintenance University Wide	5,964
UNMC Eye Institute	539
Total Project	<u>\$ 142,808</u>

G. SUBSEQUENT EVENTS

UNFC has evaluated subsequent events from the statements of net position (deficit) through October 31, 2014, the date at which the financial statements were available to be issued. No items were identified that would require disclosure.