



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

*Financial Statements for the Years Ended
June 30, 2017 and 2016
Independent Auditors' Report*

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

TABLE OF CONTENTS

	Page(s)
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-7
FINANCIAL STATEMENTS:	
Statements of Net Position (Deficit)	8
Statements of Revenues, Expenses, and Changes in Net Position (Deficit)	9
Statements of Cash Flows	10
Notes to Financial Statements	11-23



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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 30, 2017 and 2016, 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 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 auditors consider 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 30, 2017 and 2016, 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

Omaha, Nebraska
October 27, 2017

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Unaudited) (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 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 campuses and reported in the University's financial statements. The University campuses include the University of Nebraska-Lincoln (UNL), University of Nebraska Medical Center (UNMC), University of Nebraska at Omaha (UNO), and the University of Nebraska at Kearney (UNK).

The financial statements include the activities related to the following projects and bond issues for the years ended June 30, 2017 and 2016:

Facility	Financing Objective
UNMC Global Experiential Learning Center (Series 2017 Bonds)	Construction of a teaching and experiential learning center
UNL Health Center and College of Nursing (Series 2016 Bonds)	Construction of a new student health center and College of Nursing facility at UNL
Deferred Maintenance Project (Series 2016 Bonds)	Refund Deferred Maintenance Project Series 2006 Bonds
UNMC – Cancer Center (Series 2016 Bonds)	Construction of a state-of-the-art cancer research center
UNMC – Utility Improvements (Series 2016 Bonds)	Construct improvements to utility facilities
UNO Arena and UNL College of Business (Series 2015 Bonds)	Construction of the UNO/Community Arena and UNL College of Business
UNL – Veterinary Diagnostic Center (Series 2015 Bonds)	Construction of a Veterinary Diagnostic Center at the Institute of Agriculture and Natural and Resources

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Unaudited) (Dollar Amounts in Thousands)

UNMC – Qualified Energy Conservation Bond (Series 2015 Bonds)	Upgrades to UNMC energy management monitoring systems
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 the UNO/Community Arena for sports and community events
UNMC – Cancer Center (Series 2013 Bonds)	Construction of a state-of-the-art cancer research center
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 student housing
Deferred Maintenance Project (Series 2009 Bonds)	Defined deferred maintenance projects
UNL Alexander Building Project (Series 2003 Bonds)	Purchase/renovation of an office building

Financial Highlights

UNFC issued two new bond issues in fiscal 2017:

- In February 2017, UNFC issued \$59,010 of UNMC Global Center Project Bonds, Series 2017 to finance a portion of the construction of a state of the art experiential learning center at UNMC.
- In December 2016, UNFC issued \$18,520 of UNL Health Center and College of Nursing Project Bonds, Series 2016 to finance a portion of the construction of separate facilities to house a new student health center and College of Nursing at UNL and refinance Library Storage Bonds, Series 2004.

Bond obligations payable were \$390 million in 2017, \$350 million in 2016, and \$313 million in 2015. The 2017 increase reflects the two new issues, net of a decrease achieved by scheduled maturities of other issues. Noncurrent cash and cash equivalents were \$111 million in 2017, \$78 million in 2016, and \$84 million in 2015. The increase is due to the issuance of the two new bond issues late in 2017, offset by expenditures of bond proceeds for construction of the UNMC Cancer Center, the UNO Arena and UNL College of Business and the UNL Veterinary Diagnostic Center received in 2017, 2016, and 2015.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Unaudited) (Dollar Amounts in Thousands)

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, Veterinary Diagnostic Center, and the NCTA Education Center Project.
- The University of Nebraska Foundation continues to receive funds from donor gifts pledged toward the funding of the UNO/Community Arena and the Cancer Center Project.
- Funds flowing from internal University sources continue to meet expectations allowing the service of debt obligations in their normal course, with University contributions of \$29,063 in 2017, \$21,989 in 2016, and \$17,560 in 2015.

UNFC had sufficient revenues to cover debt service for each bond issue and was in compliance with all covenants at June 30, 2017 and 2016.

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 nonoperating 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.

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. Noncurrent assets consist primarily of cash and cash equivalents and investments that would either be liquidated to fund construction costs or remain invested in the several bond reserve accounts. Liabilities represent claims relating to construction and the balance of bonded obligations outstanding. Net position is a combination of plant construction-funds held in trust for specific construction projects, debt service – bond reserve accounts relating to the individual bond issues, and unrestricted (deficit). The negative balance in unrestricted, stated most simply, are amounts due in the future from state appropriation, donors, and university contributions to pay off the outstanding debt obligations.

The Condensed Statements of Revenues, Expenses, and Changes in Net Position (Deficit) basically is a recap of activities surrounding the funding and servicing of the outstanding debt. As such, it captures nonoperating revenue from appropriation, gifts, and University contributions. Outflows consist of amounts transferred to the University, representing capital projects activity during the year, and investment income and other activity at the bond trustees.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Unaudited) (Dollar Amounts in Thousands)

Condensed Statements of Net Position (Deficit)

	June 30,		
	2017	2016	2015
Assets:			
Current assets	\$ 34,377	\$ 33,560	\$ 43,752
Noncurrent assets	120,182	92,061	102,046
Total assets	<u>154,559</u>	<u>125,621</u>	<u>145,798</u>
Liabilities:			
Current liabilities	82,063	65,197	71,027
Noncurrent liabilities	319,976	307,473	280,094
Total liabilities	<u>402,039</u>	<u>372,670</u>	<u>351,121</u>
Deferred inflow of resources:			
Deferred gain on bond refunding	940	175	-
Net position (deficit):			
Restricted:			
Expendable			
Plant construction	84,055	47,620	43,163
Debt service	47,310	48,137	49,140
Unrestricted	(379,785)	(342,981)	(297,626)
Total net position (deficit)	<u>\$ (248,420)</u>	<u>\$ (247,224)</u>	<u>\$ (205,323)</u>

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

	Year Ended June 30,		
	2017	2016	2015
Nonoperating Revenues (Expenses):			
University contributions	\$ 28,785	\$ 21,989	\$ 17,560
Capital grants and gifts	12,486	14,073	19,208
Capital appropriations	12,719	11,820	11,820
Investment income	307	36	117
Interest on bond obligations payable	(4,270)	(2,867)	(4,464)
Net retirement of capital lease obligation receivable	(2,906)	(2,421)	(2,439)
Administrative and other expenses	(776)	(1,019)	(181)
Increase (decrease) in fair value of investments	(14)	28	31
	<u>46,331</u>	<u>41,639</u>	<u>41,652</u>
Transfers to the University for capital projects	<u>(47,527)</u>	<u>(83,540)</u>	<u>(131,398)</u>
Decrease in net position (deficit)	(1,196)	(41,901)	(89,746)
Net position (deficit), beginning of year	<u>(247,224)</u>	<u>(205,323)</u>	<u>(115,577)</u>
Net position (deficit), end of year	<u>\$ (248,420)</u>	<u>\$ (247,224)</u>	<u>\$ (205,323)</u>

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (Unaudited) (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, gives rise to confidence in the future stability of UNFC.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

STATEMENTS OF NET POSITION (DEFICIT) JUNE 30, 2017 AND 2016 (in thousands)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents, held by trustee – restricted	\$ 33,159	\$ 31,507
Accrued interest receivable	61	19
Capital lease obligation receivable	1,157	2,034
Total current assets	<u>34,377</u>	<u>33,560</u>
NONCURRENT ASSETS:		
Cash and cash equivalents, held by trustee – restricted	110,970	78,442
Investments held by trustee – restricted	2,573	4,953
Capital lease obligation receivable, net of current portion	6,639	8,666
Total noncurrent assets	<u>120,182</u>	<u>92,061</u>
Total assets	<u>154,559</u>	<u>125,621</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	3,295	9,430
Accrued interest payable	4,054	3,728
Due to University of Nebraska	4,753	9,901
Bond obligations payable	69,961	42,138
Total current liabilities	<u>82,063</u>	<u>65,197</u>
NONCURRENT LIABILITIES:		
Bond obligations payable, net of current portion	<u>319,976</u>	<u>307,473</u>
Total liabilities	<u>402,039</u>	<u>372,670</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred gain on bond refunding	<u>940</u>	<u>175</u>
NET POSITION (DEFICIT):		
Restricted:		
Expendable:		
Plant construction	84,055	47,620
Debt service	47,310	48,137
Unrestricted	(379,785)	(342,981)
Total net position (deficit)	<u>\$ (248,420)</u>	<u>\$ (247,224)</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, 2017 AND 2016 (in thousands)

	2017	2016
NONOPERATING REVENUES (EXPENSES):		
University contributions	\$ 28,785	\$ 21,989
Capital grants and gifts	12,486	14,073
Capital appropriations	12,719	11,820
Investment income	307	36
Interest and amortization on bond obligations payable	(4,270)	(2,867)
Retirement of capital lease obligation receivable	(2,906)	(2,421)
Administrative and other expenses	(776)	(1,019)
(Decrease) increase in fair value of investments	(14)	28
Net nonoperating revenues	<u>46,331</u>	<u>41,639</u>
TRANSFERS:		
Transfers to the University for capital projects	<u>(47,527)</u>	<u>(83,540)</u>
Decrease in net position (deficit)	<u>(1,196)</u>	<u>(41,901)</u>
NET POSITION (DEFICIT):		
Beginning of year	<u>(247,224)</u>	<u>(205,323)</u>
End of year	<u><u>\$ (248,420)</u></u>	<u><u>\$ (247,224)</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

	2017	2016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds	\$ 77,530	\$ 106,130
University contributions	28,785	21,989
Capital appropriations	12,719	11,820
Capital grants and gifts	12,486	14,073
Premium on issuance of bonds	9,042	7,999
Defeasance of bond obligation	1,063	(44,064)
Purchases of capital assets	(53,805)	(93,263)
Principal paid on bond obligations payable	(41,875)	(29,645)
Interest paid on bond obligations payable	(13,621)	(11,765)
Bond issuance costs	(772)	(1,083)
Administrative expenses	(2)	(8)
Net cash flows from capital and related financing activities	<u>31,550</u>	<u>(17,817)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	4,940	4,367
Interest on investments	277	138
Purchases of investments	(2,587)	-
Net cash flows from investing activities	<u>2,630</u>	<u>4,505</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,180	(13,312)
CASH AND CASH EQUIVALENTS RESTRICTED, Beginning of year	<u>109,949</u>	<u>123,261</u>
CASH AND CASH EQUIVALENTS RESTRICTED, End of year	<u>\$ 144,129</u>	<u>\$ 109,949</u>
NONCASH ITEM:		
Increase in fair value of investments	\$ (14)	\$ 28

See accompanying notes to financial statements.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Nebraska Facilities Corporation (UNFC) is a Nebraska nonprofit 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.

Basis of Presentation – The financial statements as presented have been prepared using the business-type activity model with an economic resources measurement focus and the accrual basis of accounting and include all accounts cited in the resolutions issued by UNFC in conjunction with the following bond issues:

- UNMC Global Experiential Learning Center (Series 2017)
- UNL Student Health and College of Nursing (Series 2016)
- Deferred Maintenance Project (Series 2016)
- UNMC Cancer Research Center Project (Series 2016)
- UNMC Utility Improvement Projects (Series 2016)
- UNL Veterinary Diagnostic Project (Series 2015)
- UNMC Qualified Energy Conservation Bond (Series 2015)
- UNO Arena/UNL College of Business (Series 2015)
- UNMC Cancer Research Center Project (Series 2014A)
- UNMC Qualified Energy Conservation Bond (Series 2014B)
- UNO/Community Facility Arena (Series 2013)
- UNMC Cancer Research Center Project (Series 2013)
- Eye Institute Project (Series 2011)
- NCTA Education Center Project/Student Housing Project (Series 2011)
- Deferred Maintenance Project (Series 2009)
- Alexander Building Project (Series 2003)

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.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

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 2017 and 2016 was \$5,007 and \$5,185, respectively.

Classification of Revenues – UNFC has classified its revenues as nonoperating revenues as they include activities that have the characteristics of nonexchange 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 UNO/Community Arena and the University of Nebraska Medical Center 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, the Global Experiential Learning Center, and the Cancer Center Project, payments from the University of Nebraska-Lincoln (UNL) that are committed to the Health Center and College of Nursing project, the NCTA Project, and the Alexander Building Project, and payments from University of Nebraska at Omaha that are committed to the UNO/Community Arena 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, the Veterinary Diagnostic Center project, and the NCTA Education Center Project.

Capital Lease Obligation Receivable – This receivable represents payments due from UNL for capital assets acquired as projects are completed and as construction progresses, which UNFC leases to UNL under capital lease purchases, including, the NCTA Project and 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 receivable are reflected as additions to or retirement of capital lease obligation receivable.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

Amortization of 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 interest and amortization on bond obligations payable in the Statements of Revenues, Expenses, and Changes in Net Position (Deficit).

Deferred Inflows – Deferred inflows represent the unamortized gains on bond refunding, which are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.

Tax Status – UNFC is an instrumentality of the University of Nebraska Board of Regents, a political subdivision of the State of Nebraska. Its activities in building and maintaining facilities for the University of Nebraska campus constitute the exercise of essential governmental functions. UNFC’s income accrues to the benefit of the University, and is therefore excluded from tax under section 115 of the Internal Revenue Code. Because it is not a school or exempt from tax under section 501(c)(3) of the Internal Revenue Code, UNFC is not subject to the unrelated business income tax, and therefore no provision for income taxes is required.

B. INVESTMENTS HELD BY TRUSTEE

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

In certain cases, the inputs used to measure fair value may fall in different levels of fair value hierarchy.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the UNFC 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. There were no Level 1 or Level 3 investments as of June 30, 2017 or 2016.

	Assets at fair value	
	Level 2	
	June 30,	
	2017	2016
Investment type:		
Debt securities:		
U.S. agencies	\$ 2,573	\$ 4,953

Debt securities – U.S. Agencies (Level 2) are valued using matrix pricing.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

Investments are as follows as of June 30, 2017:

	Fair Value	Investment Maturities (in years)		Concentration
		Less Than 1	1-2	
Investment type:				
Debt securities:				
Federal Farm Credit Bank	\$ 764	\$ 764	\$ -	30%
Federal Home Mortgage Association	999	999	-	39%
Federal National Mortgage Association	810	-	810	31%
	<u>\$ 2,573</u>	<u>\$ 1,763</u>	<u>\$ 810</u>	<u>100%</u>

Investments are as follows as of June 30, 2016:

	Fair Value	Investment Maturities (in years)		Concentration
		Less Than 1		
Investment type:				
Debt securities:				
Federal Farm Credit Bank	\$ 2,542	\$ 2,542		51%
Federal Home Mortgage Association	2,411	2,411		49%
	<u>\$ 4,953</u>	<u>\$ 4,953</u>		<u>100%</u>

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.

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 authorize 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. All investments are rated Aaa at June 30, 2017 and 2016.

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.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

C. BOND OBLIGATIONS PAYABLE

Bond obligations payable, gross of premiums, and discounts are as follows as of June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2017	\$ 328,860	\$ 77,530	\$ 41,875	\$ 364,515	\$ 65,830
2016	\$ 295,375	\$ 106,130	\$ 72,645	\$ 328,860	\$ 38,155

	Rates	Installments	2017	2016
UNMC Global Center Project, Series 2017	2.00–5.00%	\$1,015–13,795	\$ 59,010	\$ -
Student Health and College of Nursing, Series 2017	0.90–5.00%	145–2,245	18,520	-
Deferred Maintenance Project, Series 2016	3.00–5.00%	9,445–10,690	40,400	40,400
UNMC Cancer Center, Series 2016	1.00–5.00%	2,070–3,930	35,280	35,280
UNMC Cancer Center, Series 2016 Utility Project	1.75–5.00%	1,220–1,590	12,400	13,635
Veterinary Diagnostic Project	3.00–4.00%	2,680–4,895	16,815	16,815
UNO Arena and UNL College of Business Projects Series 2015	2.00%	180–6,825	25,110	27,425
UNMC Cancer Center, Series 2015	4.25%	175–200	1,875	1,875
UNMC Cancer Center, Series 2014A	4.00–5.00%	3,415–17,410	65,965	65,965
UNMC Cancer Center, Series 2014B	2.50–4.25%	370–510	4,325	4,325
UNMC Cancer Center, Series 2013	4.00%	6,710–6,980	13,690	22,065
UNO/Community Facility Project, Series 2013A and B	1.64–5.00%	830–23,055	40,945	49,545
Eye Institute Project, Series 2011	4.59%	14,740	14,740	14,740
NCTA Educ. Center/Student Housing, Series 2011	3.00–5.50%	85–1,645	7,525	8,125
Deferred Maintenance Project, Series 2009	4.59–4.66%	\$6,670	6,670	14,200
Alexander Building Project, Series 2003	4.45–5.00%	155–205	1,245	1,395
OPPD Exchange Project, Series 2010			-	1,535
Deferred Maintenance Project, Series 2006			-	9,500
Library Storage Project, Series 2004			-	2,035
Subtotal bonds payable			364,515	328,860
Unamortized bond premium			25,515	20,963
Unamortized bond discount			(93)	(212)
Total bonds payable			\$ 389,937	\$ 349,611

Bond Resolutions

General – On September 9, 1983, 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; 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 Regents but shall be payable solely out of moneys derived from designated tuition revenue, legislative appropriations, donor gifts, and UNL and UNMC lease payments. The Regents has pledged certain

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

University cash balances toward debt service on the bonds should sufficient revenue not be available. Pledged cash balances of the University were \$528,053 and \$550,025 at June 30, 2017 and 2016, 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, 2017 and 2016, UNFC is in compliance with those requirements.

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

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

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

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

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

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

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

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

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

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

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

The proceeds of the Series 2016 Bonds, along with other funds, were used to construct improvements to utility facilities and related equipment at or near UNMC.

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

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

The proceeds of the Series 2016 bonds were used to construct, equip, and furnish a comprehensive cancer center that is a portion of a larger comprehensive cancer center project with an overall budget of \$370,000 at UNMC.

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

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

The proceeds of the Series 2015 bonds provided financing for a portion of the cost to construct a veterinary diagnostic center at the University of Nebraska Institute of Agriculture and Natural Resources.

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

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

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

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

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

The proceeds of the Series 2015 Bonds provided financing for the Energy Management and Monitoring Systems and Central Utility Plan Upgrades at UNMC.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

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

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

The proceeds of the Series 2014A Bonds were 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 \$370,000. 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 \$6,000.

Principal and interest payments will come from moneys derived by UNFC under a financing agreement with the Regents. 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, 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 Project 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 provided long-term financing for the Arena payable from revenue 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 Regents. 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, 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 series 2013 Bonds financed a portion of the larger \$370,000 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.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

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

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

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

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

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

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

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

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

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

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.

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.

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

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

	Global Center Project Series 2017		Health Center College of Nursing Series 2016	
	Principal	Interest	Principal	Interest
2018	\$ -	\$ 2,855	\$ 145	\$ 760
2019	7,750	2,855	765	669
2020	13,140	2,467	790	653
2021	13,795	1,810	2,115	624
2022	7,485	1,120	2,160	560
2023–2027	16,840	2,304	6,085	1,834
2028–2032	-	-	4,415	842
2033–2037	-	-	2,045	69
	<u>\$ 59,010</u>	<u>\$ 13,411</u>	<u>\$ 18,520</u>	<u>\$ 6,011</u>

	Deferred Maintenance Project, Series 2016		Cancer Center Project, Series 2016		Cancer Center Utility Project, Series 2016	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 9,445	\$ 1,375	\$ 3,930	\$ 998	\$ 1,220	\$ 430
2019	9,885	986	2,070	920	1,260	394
2020	10,380	583	2,090	899	1,295	356
2021	10,690	214	2,130	857	1,320	330
2022	-	-	2,175	814	1,345	307
2023–2027	-	-	11,790	3,146	5,960	654
2028–2032	-	-	11,095	856	-	-
	<u>\$ 40,400</u>	<u>\$ 3,158</u>	<u>\$ 35,280</u>	<u>\$ 8,490</u>	<u>\$ 12,400</u>	<u>\$ 2,471</u>

	Veterinary Diagnostic Project, Series 2015		UNO Arena/UNL COB Project, Series 2015		Cancer Center Project, Series 2015	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 4,540	\$ 559	\$ 6,825	\$ 502	\$ -	\$ 80
2019	4,700	397	6,220	366	-	80
2020	4,895	205	2,385	241	175	80
2021	2,680	54	4,855	194	180	72
2022	-	-	-	97	180	65
2023–2027	-	-	4,825	278	945	205
2028–2032	-	-	-	-	395	25
	<u>\$ 16,815</u>	<u>\$ 1,215</u>	<u>\$ 25,110</u>	<u>\$ 1,678</u>	<u>\$ 1,875</u>	<u>\$ 607</u>

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

	Cancer Center Project, Series 2014A		Cancer Center Project, Series 2014B		Cancer Center Project, Series 2013	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 5,415	\$ 3,130	\$ -	\$ 158	\$ 6,710	\$ 548
2019	11,410	2,913	-	158	6,980	279
2020	3,415	2,457	370	158	-	-
2021	17,410	2,286	380	149	-	-
2022	8,415	1,416	395	138	-	-
2023–2027	19,900	1,770	2,180	472	-	-
2028–2032	-	-	1,000	64	-	-
	<u>\$ 65,965</u>	<u>\$ 13,972</u>	<u>\$ 4,325</u>	<u>\$ 1,297</u>	<u>\$ 13,690</u>	<u>\$ 827</u>

	UNO/Community Facility Project, Series 2013		Eye Institute Project, Series 2011		NCTA Project, Series 2011	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 5,420	\$ 1,772	\$ 14,740	\$ 677	\$ 615	\$ 330
2019	830	1,665	-	-	630	310
2020	860	1,632	-	-	660	287
2021	3,280	1,607	-	-	685	260
2022	920	1,475	-	-	715	233
2023–2027	5,345	6,638	-	-	3,335	616
2028–2032	24,290	2,263	-	-	505	190
2033–2037	-	-	-	-	380	43
	<u>\$ 40,945</u>	<u>\$ 17,052</u>	<u>\$ 14,740</u>	<u>\$ 677</u>	<u>\$ 7,525</u>	<u>\$ 2,269</u>

	Deferred Maintenance Project, Series 2009		Alexander Building Project, Series 2003	
	Principal	Interest	Principal	Interest
2018	\$ 6,670	\$ 156	\$ 155	\$ 57
2019	-	-	160	50
2020	-	-	170	42
2021	-	-	175	34
2022	-	-	185	25
2023–2027	-	-	400	20
	<u>\$ 6,670</u>	<u>\$ 156</u>	<u>\$ 1,245</u>	<u>\$ 228</u>

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

	Totals UNFC		
	Principal	Interest	Total
2018	\$ 65,830	\$ 14,387	\$ 80,217
2019	52,660	12,042	64,702
2020	40,625	10,060	50,685
2021	59,695	8,491	68,186
2022	23,975	6,250	30,225
2023–2027	77,605	17,937	95,542
2028–2032	41,700	4,240	45,940
2033–2037	2,425	112	2,537
	<u>\$ 364,515</u>	<u>\$ 73,519</u>	<u>\$ 438,034</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 OF NEBRASKA

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

F. COMMITMENTS AND CONTINGENCIES

The remaining bond proceeds of \$95,143 at June 30, 2017 will be spent on the construction of several facilities. The projects are as follows:

UNMC Global Experiential Learning Center	\$ 63,299
UNL Health Center and College of Nursing	14,791
UNMC Cancer Center, Series 2016 Utility Project	11,610
Veterinary Diagnostic Project	4,259
Deferred Maintenance 2009	860
UNO Community Arena	226
Arena/COB Project	98
Total Projects	<u>\$ 95,143</u>

THE UNIVERSITY OF NEBRASKA FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

G. SUBSEQUENT EVENTS

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

UNFC has evaluated subsequent events from the date of the statement of net position (deficit) through October 27, 2017 the date at which the financial statements were available to be issued. No additional items were identified that would require disclosure.