

**AUDIT REPORT
OF THE
NEBRASKA STATE COLLEGE SYSTEM
JULY 1, 2003 THROUGH JUNE 30, 2004**

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Issued on December 13, 2004

NEBRASKA STATE COLLEGE SYSTEM

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We have audited the accompanying Statement of Net Assets of the Nebraska State College System (NSC), a component unit of the State of Nebraska, as of June 30, 2004, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of the NSC's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accompanying Statements of Financial Position of Chadron State, Peru State and Wayne State Foundations, discretely presented component units of the NSC, as of June 30, 2004, December 31, 2003, and June 30, 2004, respectively, and the related Statements of Activity and Cash Flows for the year then ended. Those statements are presented separately on pages 11 through 13, 15 through 17, and 19 through 21. Those statements were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Chadron State, Peru State, and Wayne State Foundations is based solely on the reports of these auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska State College System as of June 30, 2004, and December 31, 2003, and changes in their financial position and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements the NSC implemented Governmental Accounting Standards Board (GASB) Statement 39. This warranted the inclusion of NSC Foundations as part of the reporting entity of the NSC for fiscal year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2004 on our consideration of the NSC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the NSC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Combining Schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 10, 2004


Assistant Deputy Auditor

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska State College System's (NSC) financial report presents a narrative overview and analysis of the financial activities of the NSC for the fiscal year ended June 30, 2004. The analysis has been prepared by management of the NSC and is intended to be read with the financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the NSC's basic financial statements, which include: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to Financial Statements. This report also contains information in addition to the basic financial statements.

The Statement of Net Assets presents information on all of the NSC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the NSC is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the NSC's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Statement of Cash Flows presents the NSC's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the NSC's cash receipts and payments during the year.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents information required by the Single Audit Act and OMB Circular A-133, and optional financial information of combining schedules by college.

FINANCIAL ANALYSIS OF THE NSC AS A WHOLE

The fiscal year ended June 30, 2004 is the second year that the NSC has reported as a single entity. The NSC includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), and the NSC Office in Lincoln. The designation as a single entity reflects the general governing authority of the Board of Trustees, including the authority to distribute the State appropriation among the colleges and the NSC Office.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The audit for the fiscal year ended June 30, 2004, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSC to finance building projects of the Board of Trustees of the Nebraska State Colleges on any of its campuses, through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees serve as the officers of the Facilities Corporation. Bonds issued by the Facilities Corporation in recent years include those authorized under LB 1100, passed in 1998, and LB 1, passed during the first special session of the 97th Legislature in 2001. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSC Office, while the assets acquired as the result of renovations and new construction appear as assets at the individual colleges.

Audit information from the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation is included in the report as well. With implementation of GASB Statement 39, the foundations of the colleges have been deemed to be component units of the NSC. Those foundations' financial statements are presented separately on pages 11 through 13, 15 through 17, and 19 through 21 of this report.

	Primary Government	
	2004	2003
Current Assets	\$ 18,422,506	\$ 14,804,950
Noncurrent Assets		
Capital Assets, Net	89,654,447	81,954,149
Other Noncurrent Assets	17,533,371	16,659,737
Total Assets	<u>125,610,324</u>	<u>113,418,836</u>
Current Liabilities	10,710,049	10,386,296
Noncurrent Liabilities	<u>33,261,209</u>	<u>29,240,932</u>
Total Liabilities	<u>43,971,258</u>	<u>39,627,228</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	54,398,969	51,290,593
Restricted	19,807,878	17,473,756
Unrestricted	<u>7,432,219</u>	<u>5,027,259</u>
Total Net Assets	<u>\$ 81,639,066</u>	<u>\$ 73,791,608</u>

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

	Primary Government	
	2004	2003
Operating Revenues		
Tuition and Fees, Net	\$ 13,737,704	\$ 11,594,755
Federal and State Grants and Contracts	10,191,881	9,698,271
Private Grants and Contracts	1,121,558	984,632
Auxiliary Enterprises, Net	8,724,083	8,187,202
Other Operating Revenues	362,582	280,675
Total Operating Revenues	34,137,808	30,745,535
Operating Expenses	66,249,429	66,323,669
Operating Loss	(32,111,621)	(35,578,134)
Nonoperating Revenues (Expenses)		
State Appropriations	34,421,355	36,248,012
Investment Income	752,583	1,154,782
Interest on Capital Asset-Related Debt	(1,374,892)	(1,265,394)
Other Nonoperating (Expenses)	(61,353)	(241,760)
Total Nonoperating Revenues	33,737,693	35,895,640
Gain (Loss) Before Other Revenues and Transfers	1,626,072	317,506
Capital Federal Grants and Contracts	100,000	172,530
Capital State Grants and Contracts	-	3,750
Capital Appropriations and Grants	4,306,744	3,726,361
Capital Contributions	886,435	912,082
Capital Facilities Fee	928,207	891,756
Increase in Net Assets	7,847,458	6,023,985
Net Assets, Beginning of Year	73,791,608	67,767,623
Net Assets, End of Year	\$ 81,639,066	\$ 73,791,608

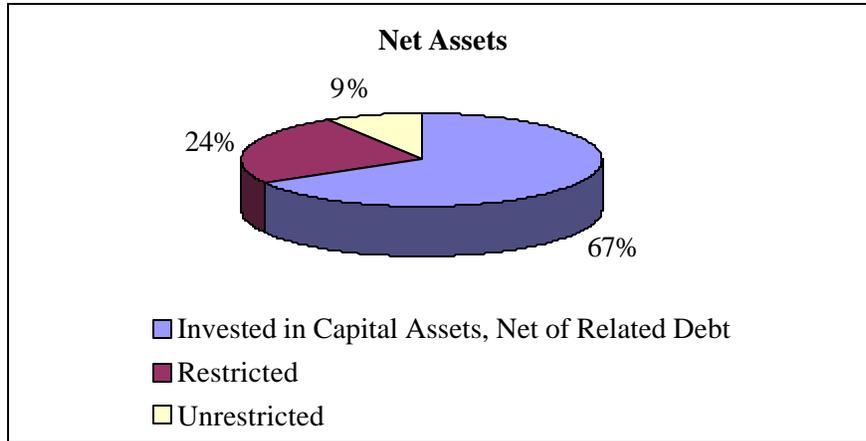
NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

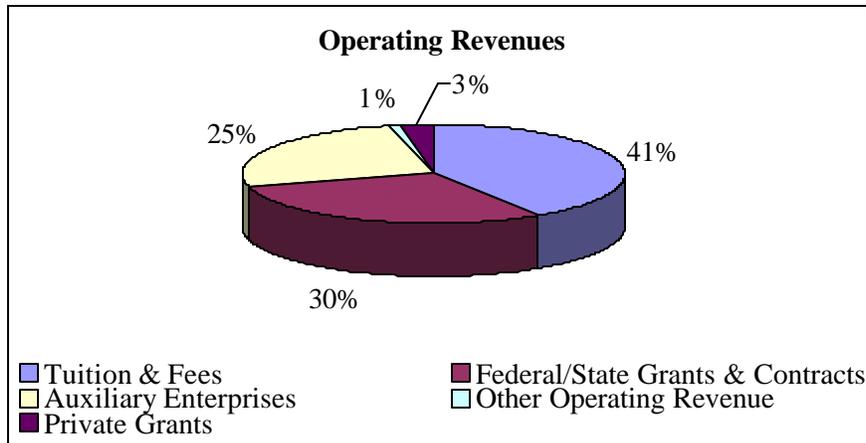
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CHANGES IN NET ASSETS

At June 30, 2004, the NSC had net assets of \$81.6 million, an increase of \$7.8 million or 10.6% over 2003. The net assets were comprised of Unrestricted - \$7.4 million; Restricted - \$19.8 million, and Invested in Capital Assets, Net of Related Debt - \$54.4 million.



The operating revenues were \$34.1 million, compared to \$30.7 million in 2003, an 11.0% increase. They include \$13.7 million in tuition and fees; Federal and State grants and contracts of \$10.2 million; \$1.1 million of private grants and contracts; auxiliary enterprises (net) of \$8.7 million, and other operating revenues of \$.4 million.



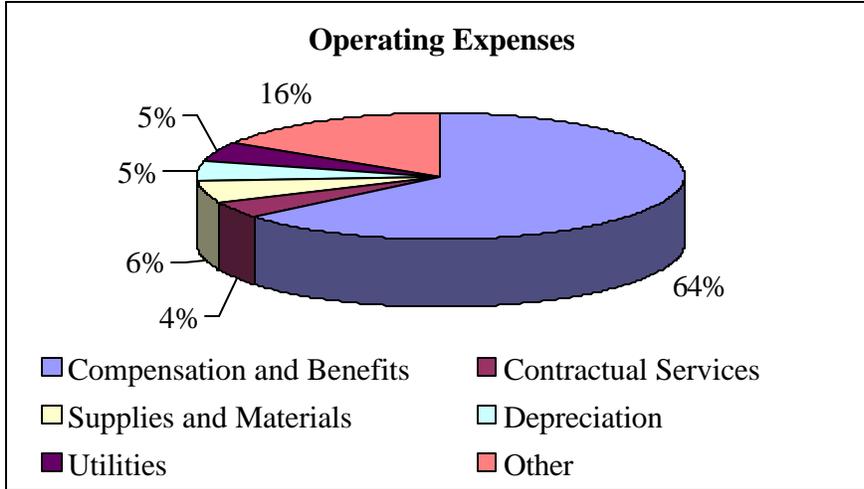
As noted in Note 9 of the Notes to Financial Statements, Nonoperating Revenues of \$3,367,348 shown on the NSC audit for the year ended June 30, 2003 have been reclassified to Operating Revenues; \$172,530 of Nonoperating Revenues were reclassified to Other Revenues; and \$152,365 of Other Revenues were reclassified as Operating Revenues. Comparisons shown represent the reclassified amounts for 2003.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

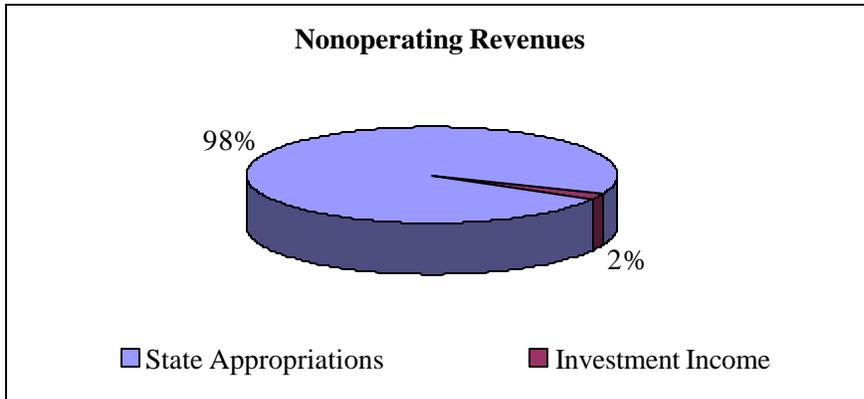
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Operating expenses for the year ended June 30, 2004, amounted to \$66.2 million, compared to \$66.3 million in 2003. Compensation and benefits accounted for \$42.7 million, or 64.5% of the total; contractual services were \$2.4 million; supplies and materials, \$4.2 million; scholarships and fellowships, \$0.9 million; depreciation, \$3.3 million; utilities, \$3.1 million; repairs and maintenance, \$1.6 million; communications, \$0.9 million; food service, \$2.5 million; and other operating expenses, \$4.7 million.



The current year operating loss amounted to \$32.1 million, compared to a restated operating loss in 2003 of \$35.6 million.

Nonoperating revenues consist of State appropriations and investment income.



The most significant changes from the fiscal year ended June 30, 2003 to the fiscal year ended June 30, 2004, include the reduction in nonoperating revenues and the increase in operating revenues. The reduction in nonoperating revenue stems from a reduction in State appropriation of \$1.82 million

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

and a reduction in interest earnings of \$0.4 million. The reduction in operating loss from 2003 to 2004 can be attributed to nearly flat expenditures from the prior year but a substantial increase in operating revenues due to rate increases for room, board, and tuition.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2004, the NSC had recorded \$141.0 million in gross capital assets. During the fiscal year ended June 30, 2004, the investment in buildings and improvements increased by \$16.9 million; the investment in infrastructure increased by \$5.3 million; furniture, fixtures, and equipment increased by \$0.3 million; library materials increased by \$0.2 million; art increased by \$0.05 million; and construction in progress decreased by \$12.2 million. At the end of the fiscal year, the NSC had \$51.4 million in accumulated depreciation that left \$89.6 million in net capital assets.

At the end of the fiscal year, the NSC had \$37.4 million in outstanding long-term debt. In December of 2003, the NSC issued \$6.9 million in additional long-term debt. The Series A issue was a \$5.1 million, 25-year bond issue for the renovation of Edna Work Hall and Edna Work Wing at Chadron State College. The Series B issue provides \$1.8 million, to be repaid over 15 years, to address fire and life safety, ADA, energy conservation, and enhancement of physical environment projects at various residence halls on the Wayne State College campus. The new financing is issued under the NSC Master Resolution enacted by the Board of Trustees in 2002. Net interest costs are 5.0% on the Chadron Series and 4.1% on the Wayne Series.

Capital improvements to the NSC facilities continued through the fiscal year, with funding from State allocations, bonding, student fees, private funds, Federal and State grants, and revenue bond funds. Work continues at CSC to expand the piping for the central chilling resource provided through biomass. The Edna Work dormitory is under renovation; and the renovation of the heating, ventilating, and air-conditioning system at the Academic/Administration Building is complete. New boilers are installed and an upgrade of the steam distribution system has been completed at PSC. The PSC Academic Resource Center and walkway to the new library were completed during the year, with dedication occurring during the April Board meeting on campus. Neihardt Hall on the WSC campus was totally renovated; the air-conditioning of Rice Hall was completed; and a new gymnasium floor has been installed. The new entrance plaza and track projects were completed at Memorial Stadium. Various tuck-pointing and fire and life safety upgrades are underway at all three colleges.

See the Notes to Financial Statements for additional discussion of capital assets and long-term liabilities.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE

With the downturn in the economy experienced over the last several years, State appropriations have been tightly constrained. The NSC has managed the cuts through staff and operating reductions and tuition increases. For 2004-2005, tuition increased by 9.2%. Comparisons with neighboring institutions and peers across the country, however, indicate that costs of attendance at the State colleges remain competitive. Operating reductions were carefully targeted so that instructional and student services were preserved.

Enrollment at the State colleges increased by 2.7% in 2003-2004, and fall enrollments are stable to slightly higher for 2004-2005. The NSC is engaged in an increased emphasis on enrollment management and marketing. A cooperative effort is being planned with Northeast Community College to provide better service to students in the growing Siouxland area around South Sioux City. The proposed new center will address a recommendation of the Legislature's LR 174 Committee to attract and educate more students to Nebraska to increase the workforce and improve economic development.

The NSC has completed a number of renovations to classroom and residence facilities, which continue to make the campuses attractive to both new and current students. Heating and cooling systems at all three colleges have been replaced or upgraded over the last three years, to provide better comfort and improved efficiency in the face of increasing fuel costs.

Competitive tuition rates, increased enrollment, and efficient operations will enable the NSC to continue to provide excellent educational opportunities for the citizens of our State and region.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
STATEMENT OF NET ASSETS
June 30, 2004

Assets

Current Assets

Cash and Cash Equivalents	\$ 11,923,172
Restricted Cash and Cash Equivalents	3,162,849
Accounts Receivable, Net	451,956
State Grants and Appropriations Receivable	1,608,725
Other Receivables	355,372
Loans to Students, Net	600,558
Prepaid Expenses	179,226
Inventories	140,648
Total Current Assets	18,422,506

Noncurrent Assets

Restricted Cash and Cash Equivalents	13,568,467
Restricted Investments Held by Trustee	1,353,731
Other Receivables	9,980
Loans to Students, Net	2,096,662
Capital Assets, Net	89,654,447
Deferred Bond Issue Costs	504,531
Total Noncurrent Assets	107,187,818

Total Assets	125,610,324
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Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	5,304,477
Accrued Compensated Absences	1,278,858
Other Liabilities	25,837
Deferred Revenue	427,132
Interest Payable	465,059
Long-Term Debt	2,800,000
Deposits Held in Custody for Others	370,101
Unamortized Bond Premium	38,585
Total Current Liabilities	10,710,049

Noncurrent Liabilities

Accrued Compensated Absences	474,992
Long-Term Debt	32,525,000
Other Noncurrent Liabilities	145,464
Unamortized Bond Premium	115,753
Total Noncurrent Liabilities	33,261,209

Total Liabilities	43,971,258
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Net Assets

Invested in Capital Assets, Net of Related Debt	54,398,969
Restricted for:	
Expendable:	
Loans	3,095,147
Debt Service	14,767,804
Other Restricted	1,944,927
Unrestricted	7,432,219
Total Net Assets	\$ 81,639,066

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - CHADRON STATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
 June 30, 2004

<u>ASSETS</u>	
Cash and Cash Equivalents - Unrestricted	\$ 649,987
Cash and Cash Equivalents - Restricted	267,300
Investments	5,900,254
Contributions Receivable, Net Allowance for Uncollectable Accounts of \$72,596	195,539
Other Assets	73,264
Property & Equipment, Net Accumulated Depreciation	<u>178,409</u>
TOTAL ASSETS	<u><u>\$ 7,264,753</u></u>
 <u>LIABILITIES AND NET ASSETS</u> 	
LIABILITIES	
Wages Payable	\$ 39,098
Scholarships Payable	269,203
Deferred Revenue	73,261
Due to Other Agencies	<u>593,898</u>
Total Liabilities	<u>975,460</u>
 NET ASSETS	
Unrestricted	(813,982)
Temporarily Restricted	830,335
Permanently Restricted	<u>6,272,940</u>
Total Net Assets	<u>6,289,293</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 7,264,753</u></u>

The accompanying notes to financial statements are an integral part of these statements

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - PERU STATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
 December 31, 2003

<u>ASSETS</u>	
UNRESTRICTED ASSETS	
Cash and Cash Equivalents	\$ -
Unconditional Promises to Give, Net of Allowance	62,357
Investments	3,405,343
Notes Receivable, Net of Allowance	220,470
Interest Receivable	8,175
Real Estate and Other Investments	40,002
Total Unrestricted Assets	3,736,347
ENDOWMENT ASSETS	
Cash and Cash Equivalents	698,907
Less Cash Due to Unrestricted Funds	(285,879)
	413,028
Investments	4,973,097
Total Endowment Assets	5,386,125
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation	72,573
Total Assets	\$ 9,195,045
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts Payable	\$ 31,305
Refundable Deposits	47,160
Gift Annuity	171,723
Accrued Compensation	26,779
Total Liabilities	276,967
NET ASSETS	
Unrestricted Net Assets:	
Operating	2,759,640
Board Designated	1,123,756
Fixed Assets	14,774
Total Unrestricted Net Assets	3,898,170
Temporarily Restricted Net Assets	346,902
Permanently Restricted Net Assets	4,673,006
Total Net Assets	8,918,078
Total Liabilities and Net Assets	\$ 9,195,045

The accompanying notes to financial statements are an integral part of these statements

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - WAYNE STATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
 June 30, 2004

Assets	
Cash and Cash Equivalents	\$ 369,699
Investments	7,333,199
Accrued Interest	547
Unconditional Promises to Give	428,161
Note Receivable	-
Cash Value Life Insurance	172,474
Assets Held in Perpetual Trust	
Investments	800,829
Assets Restricted for Annuity Contracts	
Investments	568,386
Accrued Interest Annuity Investments	-
Real Estate	117,000
Real Estate	<u>36,750</u>
Total Assets	<u><u>\$ 9,827,046</u></u>
 Liabilities and Net Assets	
Accounts Payable	\$ 11,362
Annuities Payable	<u>386,745</u>
Total Liabilities	<u>398,107</u>
 Net Assets:	
Unrestricted:	
Undesignated	1,049,288
Fair Value Endowment Funds Below Cost	-
Designated	<u>175,000</u>
Total Unrestricted Net Assets	<u>1,224,288</u>
Temporarily Restricted	1,149,701
Permanently Restricted	<u>7,054,950</u>
Total Net Assets	<u>9,428,939</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,827,046</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
**STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS**
 Fiscal Year Ended June 30, 2004

Operating Revenues	
Tuition and Fees, Net	\$ 13,737,704
Federal Grants and Contracts	8,913,743
State Grants and Contracts	1,278,138
Private Grants and Contracts	1,121,558
Auxiliary Enterprises, Net	8,724,083
Other Operating Revenues	362,582
	34,137,808
 Operating Expenses	
Compensation and Benefits	42,744,245
Contractual Services	2,377,075
Supplies and Materials	4,185,219
Scholarships and Fellowships	850,852
Depreciation	3,279,216
Utilities	3,074,737
Repairs and Maintenance	1,562,628
Communications	935,931
Food Service	2,541,022
Other Operating Expenses	4,698,504
	66,249,429
	(32,111,621)
 Operating Loss	
 Nonoperating Revenues (Expenses)	
State Appropriations	34,421,355
Investment Income	752,583
Interest on Capital Asset-Related Debt	(1,374,892)
Other Nonoperating (Expenses)	(61,353)
	33,737,693
	1,626,072
 Income Before Other Revenues	
Federal Grants and Contracts	100,000
Capital Facilities Fee	928,207
Capital Appropriations and Grants	4,306,744
Capital Contributions	886,435
Total Other Revenues	6,221,386
	7,847,458
Increase in Net Assets	7,847,458
Net Assets, Beginning of Year	73,791,608
Net Assets, End of Year	\$ 81,639,066

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - CHADRON STATE FOUNDATION
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2004

UNRESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Fall Campaign and Phonathon	\$ 266,425
Continuation Fees	23,050
Miscellaneous Income	10,653
MBNA Credit Card Income	5,569
Event Income	4,066
Interest Income	3,849
	<hr/>
Total Revenues, Gains and Other Support	313,612
Net Assets Released From Restrictions	172,167
	<hr/>
Total Unrestricted Support and Reclassifications	485,779
	<hr/>
Expenses	
Scholarships	270,203
Payroll	121,330
Bad Debt Expense	48,163
Supplies	23,391
Computer Support	19,530
Travel/Conference	9,471
Printing	8,518
Postage	7,145
Food	7,056
Professional Fees	4,975
Presidential Support	4,268
Honorariums	4,210
Subscriptions	3,781
Depreciation	3,146
Insurance	1,694
Property Expense	1,569
Admissions Support	1,277
Office Rent	890
Promotional	727
Membership	398
Registration	139
	<hr/>
Total Expense	541,881
	<hr/>
Decrease in Unrestricted Net Assets	(56,102)
	<hr/>
TEMPORARILY RESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Realized Gain on Investments	354,179
Unrealized Gain on Investments	520,612
	<hr/>
Total Temporarily Restricted Revenues, Gains and Other Support	874,791
Net Assets Released From Restrictions	(172,167)
	<hr/>
Increase in Temporarily Restricted Net Assets	702,624
	<hr/>
PERMANENTLY RESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Principle Contributions	863,292
Transfer from Other Agency	103,278
	<hr/>
Total Permanently Restricted Revenues, Gains and Other Support	966,570
	<hr/>
Increase in Permanently Restricted Net Assets	966,570
	<hr/>
INCREASE IN NET ASSETS	1,613,092
NET ASSETS BEGINNING OF YEAR	4,676,201
	<hr/>
NET ASSETS END OF YEAR	<u>\$ 6,289,293</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - PERU STATE FOUNDATION
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 347,929	\$ 120,952	\$ 534,600
Special Events	15,521	22,329	125
Interest and Dividends	73,233	4,414	118,164
Management Service Fee Revenues	120,011	-	-
Realized Gain on Investments	-	-	-
Unrealized Gain on Investments	460,648	32,864	882,221
Miscellaneous Income	1,907	23,391	23
Net Assets Released From Restrictions	1,398,507	(102,295)	(1,296,212)
Total Revenues, Gains, and Other Support	2,417,756	101,655	238,921
EXPENSES AND LOSSES			
Programs:			
Scholarships	270,483	-	-
Education Departments	99,451	-	-
Donations	117,884	-	-
Support Services:			
Management and General:			
Salaries and Wages	320,057	-	-
Administration	174,196	-	-
Management Service Fees	120,011	-	-
Realized Loss on Investments	1,197	-	-
Unrealized Loss on Investments	-	-	-
Depreciation	4,132	-	-
Bad Debts	18,840	-	-
Miscellaneous Expenses	29,554	-	-
Fund Raising:			
Promotion and Development	64,359	-	-
Special Event Expenses	10,739	-	-
Total Expenses and Losses	1,230,903	-	-
CHANGE IN NET ASSETS	1,186,853	101,655	238,921
NET ASSETS AS OF BEGINNING OF YEAR	2,711,317	245,247	4,434,085
NET ASSETS AS OF END OF YEAR	\$ 3,898,170	\$ 346,902	\$ 4,673,006

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - WAYNE STATE FOUNDATION
STATEMENT OF ACTIVITIES
 Fiscal Year Ended June 30, 2004

Unrestricted Revenue and Other Support:	
Gift/Contributions Income	\$ 614,872
Investment Income	25,527
Gains (Losses) on Investments	283,523
Endowment Fees	-
Other Non Gift Income	18,321
Total Unrestricted Revenue and Other Support	<u>942,242</u>
Net Assets Released From Restrictions	1,505,308
 Expenses:	
General and Administrative	122,167
Fundraising	229,914
Program Expenses	1,650,716
Total Expenses Before Amortization	<u>2,002,797</u>
Change in Value Split-Interest Agreement	11,202
Total Expenses	<u>2,013,999</u>
Change in Unrestricted Net Assets	<u>433,551</u>
 Temporarily Restricted Revenue and Other Support:	
Gift/Contributions Income	720,459
Investment Income	117,508
Less Endowed Growth	(55,909)
Gains (Losses) on Investments	506,232
Other Non Gift Income	290,167
Total Temporarily Restricted Revenue and Other Support	<u>1,578,457</u>
Net Assets Released From Restrictions	<u>(1,505,308)</u>
Change in Temporarily Restricted Net Assets	<u>73,149</u>
 Permanently Restricted Revenue and Other Support:	
Gift/Contributions Income	339,691
Investment Income	6,349
Gains (Losses) on Investments	132,540
Endowment Growth	55,909
Other Non Gift Income	9,009
Total Permanently Restricted Revenue and Other Support	<u>543,497</u>
Change in Value Split-Interest Agreement	<u>(9,187)</u>
Change in Permanently Restricted Net Assets	<u>534,310</u>
Net Increase (Decrease) Net Assets	<u>1,041,010</u>
Net Assets, Beginning of Year	<u>8,387,928</u>
Net Assets, End of Year	<u><u>\$ 9,428,939</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2004

Cash Flows From Operating Activities	
Tuition and Fees	\$ 13,834,808
Grants and Contracts	11,313,439
Payments to Suppliers	(16,905,094)
Payments for Utilities	(3,074,737)
Payments to Employees	(42,846,958)
Sales and Services of Auxiliary Enterprises	8,719,134
Loans Issued to Students	(738,109)
Collections of Loans to Students	771,252
Other Receipts	250,359
Net Cash Used by Operating Activities	<u>(28,675,906)</u>
Cash Flows From Noncapital Financing Activities	
State Appropriations	34,193,956
Grants and Contracts	(181,388)
Other Receipts	55,014
Net Cash Provided by Noncapital Financing Activities	<u>34,067,582</u>
Cash Flows From Capital and Related Financing Activities	
Receipt from State for Capital Purchases	4,389,579
Purchase of Capital Assets	(11,506,228)
Proceeds from Issuance of Capital Debt	6,910,000
Principal Paid on Capital Debt	(2,500,000)
Interest Paid on Capital Debt	(1,388,228)
Capital Contributions	886,435
Capital Facilities Fee	928,207
Federal Grants and Contracts	100,000
Other Payments	(117,403)
Net Cash Used by Capital and Related Financing Activities	<u>(2,297,638)</u>
Cash Flows From Investing Activities	
Proceeds from Sales and Maturities of Investments	1,967,624
Purchase of Investments	(243,945)
Investment Income	752,583
Net Cash Provided by Investing Activities	<u>2,476,262</u>
Increase in Cash and Cash Equivalents	5,570,300
Cash and Cash Equivalents, Beginning of Year	<u>23,084,188</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 28,654,488</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	\$ 11,923,172
Restricted Cash and Cash Equivalents - Current	3,162,849
Restricted Cash and Cash Equivalents - Noncurrent	13,568,467
Total Cash and Cash Equivalents	<u><u>\$ 28,654,488</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Loss	\$ (32,111,621)
Depreciation Expense	3,279,216
Changes in Operating Assets and Liabilities	
Receivables, Net	(116,931)
Inventories	(36,214)
Federal and State Grants	209,798
Accrued Compensated Absences	(9,691)
Other Assets and Liabilities	109,537
Net Cash Used in Operating Activities	<u><u>\$ (28,675,906)</u></u>
Supplemental Cash Flows Information	
Accounts Payable Incurred for Capital Asset Purchases	\$ 1,438,269

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - CHADRON STATE FOUNDATION
STATEMENT OF CASH FLOWS
 Fiscal Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 1,613,092
Adjustments to Reconcile Increase in Net Assets	
To Net Cash Provided By Operating Activities	
Depreciation	3,146
Unrealized Gain on Investments	(520,612)
Realized Gain on Sale of Investments	(354,179)
(Increase) Decrease In:	
Accounts Receivable	(37,564)
Other Assets	(28,270)
Increase (Decrease) In:	
Scholarships Payable	55,266
Wages Payable	(1,110)
Due to Other Agencies	(194,656)
Deferred Revenue	28,267
	<hr/>
Net Cash Provided By Operating Activities	563,380
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds From Sale of Investments	1,645,157
Purchase of Investments	(2,819,565)
	<hr/>
Net Cash Used By Investing Activities	(1,174,408)
	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES	
Endowment Fund Support	863,292
Transfer From Other Agency	103,278
	<hr/>
Net Cash Provided By Investing Activities	966,570
	<hr/>
Net Increase in Cash and Equivalents	355,542
	<hr/>
CASH AND EQUIVALENTS BEGINNING OF YEAR	561,745
	<hr/>
CASH AND EQUIVALENTS END OF YEAR	\$ 917,287
	<hr/> <hr/>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash and Equivalents - Unrestricted	\$ 649,987
Cash and Equivalents - Restricted	267,300
	<hr/>
Total Cash and Equivalents	\$ 917,287
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - PERU STATE FOUNDATION
STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ 1,527,429
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	4,132
Unrealized (Gain) Loss on Investments	(1,375,733)
Realized Loss (Gain) on Sale of Investments	1,197
Contributed Investments	(362,871)
Contributed Assets	(7,115)
Withdrawals from Investments	206,600
Changes in Operating Assets and Liabilities:	
Increase in Unconditional Promises to Give	(15,125)
Decrease (Increase) in Notes Receivable	31,685
Decrease in Interest Receivable	410
Increase in Accounts Payable	6,148
Increase in Accrued Compensation	2,116
Increase in Refundable Deposits	47,160
Increase in Gift Annuity Payable	171,723
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	237,756
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	-
Purchases of Investments	(183,293)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<hr/> <u>(183,293)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,463
CASH AND CASH EQUIVALENTS - BEGINNING	<hr/> 358,565
CASH AND CASH EQUIVALENTS - ENDING	<hr/> <u>\$ 413,028</u>
SUPPLEMENTAL INFORMATION	
Non-Endowed Cash and Cash Equivalents	\$ (285,879)
Endowed Cash and Cash Equivalents	<hr/> 698,907
TOTAL CASH AND CASH EQUIVALENTS	<hr/> <u>\$ 413,028</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
 COMPONENT UNIT - WAYNE STATE FOUNDATION
STATEMENT OF CASH FLOWS
 Fiscal Year Ended June 30, 2004

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 1,041,010
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable	292
Unconditional Promises to Give	(263,417)
(Increase) Decrease in Operating Non-Cash Liabilities:	
Accounts Payable	(34,734)
Depreciation	3,000
Amortization of Annuity Obligations	20,389
Loss (Gain) on Investments & (Reinvested Income)	(922,295)
Unrealized Increase in Cash Value Life Insurance	(5,832)
Non Cash Contributions	(7,267)
Contributions Restricted for Permanent Investment	(323,407)
Interest and Dividends Restricted for Investment	(55,909)
	(548,171)
Net Cash Provided by Operating Activities	(548,171)
Cash Flows From Investing Activities:	
Repayments of Note Receivable	-
Net (Purchase) Proceeds of Investments	(524,300)
Net Cash Used by Investing Activities	(524,300)
Cash Flows From Financing Activities:	
Proceeds from Annuity Contracts	10,000
Payments on Annuity Contracts	(33,328)
Contributions Restricted for Permanent Investment	288,899
Investment Income Restricted for Reinvestment	55,909
Net Cash Provided by Financing Activities	321,480
Net Increase in Cash and Cash Equivalents	(750,991)
Cash and Cash Equivalents, Beginning of Year	1,120,689
Cash and Cash Equivalents, End of Year	\$ 369,698
Non Cash Transactions	
Contribution of Remainder Interest in Annuities	\$ 34,509

The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2004

1. **Summary of Significant Accounting Policies**

Organization

The Nebraska State College System (NSC) is a governmental institution established under and governed by the laws of the State of Nebraska. The NSC operates under the jurisdiction of the Board of Trustees of the Nebraska State Colleges. The NSC includes Wayne State College (WSC), Chadron State College (CSC), Peru State College (PSC), the NSC Office, the Nebraska State College Facilities Corporation (a blended component unit). The NSC is a component unit of the State of Nebraska (State) because it is financially accountable to the State. The financial statements include all funds of the NSC.

For the fiscal year ended June 30, 2004 the State College Board of Trustees implemented Governmental Accounting Standards Board (GASB) Statement 39 (An amendment of GASB Statement 14 "Determining Whether Certain Organizations Are Component Units"). For further information on the implementation of this accounting standard see the Reporting Entity disclosure below.

The major accounting principles and practices followed by the NSC and its separately reported foundation component units are presented below to assist the reader in evaluating the financial statements and accompanying notes.

Reporting Entity

The NSC has considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on the NSC, or the significance of their relationship with the NSC is such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the NSC to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the NSC.

As required by Generally Accepted Accounting Principles (GAAP), these financial statements present the NSC and its component units. The component units are included in the NSC reporting entity because of the significance of their operational or financial relationships with the NSC.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Blended Component Unit

The Nebraska State Colleges Facilities Corporation (Corporation) is a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State colleges. This component unit is included in the NSC's reporting entity because of the significance of its operational or financial relationships with the NSC. This component unit is an entity that is legally separate from the NSC, but is so intertwined with the NSC that it is, in substance, the same as the NSC. The Corporation's balances and transactions are blended into the accompanying financial statements and reported in a manner similar to the balances and transactions of the NSC itself.

Discretely Presented Component Units

In implementing GASB Statement 39 the State College Board of Trustees determined Chadron State, Peru State and Wayne State Foundations (Foundations) are legally separate, tax-exempt nonprofit foundations incorporated in the State of Nebraska. The Foundations act primarily as fund-raising organizations to supplement the resources that are available to their respective college in support of their programs. Although the colleges do not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon the Foundations hold and invest is restricted to the activities of their respective college by its donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, their respective college, the Foundations are considered component units of the NSC and are discretely presented on separate pages in this report.

During the year ended June 30, 2004, Chadron State and Wayne State Foundations distributed \$213,937 and \$1,377,346, respectively to their colleges; and during the year ended December 31, 2003, Peru State Foundation distributed \$498,744 to Peru State College for both restricted and unrestricted purposes. Separate audit reports were issued by each foundation and can be obtained from their respective administrative offices or by contacting the Nebraska State College System Office at P.O. Box 94605, Lincoln, NE 68509-4605.

Basis of Accounting and Presentation

NSC statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. GASB has issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public*

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Colleges and Universities. The NSC follows the “business-type” activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

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

The NSC has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The NSC has elected not to apply FASB pronouncements issued after the applicable date.

The financial statements of the NSC have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally Federal and State grants and State appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as State appropriations), investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses. The NSC first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The financial statements of the Foundations have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of FASB in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundations are required to report information regarding their financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Net assets that are not subject to donor imposed stipulations.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Temporarily Restricted Net Assets – Net assets subject to donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Foundations. Generally, earnings from endowed contributions and investments are restricted for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The NSC Cash and Cash Equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the NSC based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which make use of amounts on deposit from the NSC. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSC and as such are not included in the financial statements for the year ended June 30, 2004.

The NSC considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2004, cash equivalents consisted primarily of money market funds.

Peru and Wayne State Foundations consider all highly liquid investments with a maturity of three months or less to be cash equivalents. Chadron State Foundation considers all cash in bank to be cash equivalents.

Income Tax Status

The NSC is a State agency established under and governed by the laws of the State of Nebraska. As such, NSC is exempt from State and Federal income taxes.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

The Foundations qualify as tax-exempt organizations, other than a private foundation, under Section 501(c)(3) of the Internal Revenue Code and therefore, have no provision for Federal income taxes.

Investments and Investment Income

NSC investments, including those held by a trustee, are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Chadron State Foundation has adopted the FASB SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are reported in the statement of activities as a change in unrestricted net assets.

Investments are composed of limited liability investment groups, which invest in debt and equity securities and are carried at fair value.

The Foundation is a 20% owner of stock in Chadron Communication's. The stock is recorded at the appraised value on the date of the donor's death. The Foundation believes the fair market value at June 30, 2004, is consistent with the appraised value.

Peru State Foundation has adopted the FASB SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are reported in the statement of activities as a change in unrestricted net assets.

The Foundation pools its investments for greater flexibility in managing its investments. When investments are pooled, they lose their specific identification with specific contributions. Thus, the income and realized gains and losses are allocated to the pool participants using the market value method.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

The market value method assigns a number of units to each pool participant based on the relationship of the individual investments to the total investments at the time the investments are pooled. The pool participants account for their allocated amounts using methods appropriate for the particular net asset class.

The carrying value of cash and cash equivalents and accounts payable approximate fair value because of the short maturity of these instruments. Investments are reported at fair value using public market quotations. The fair value of unconditional promises to give and notes receivable is determined as the expected future cash flows.

Wayne State Foundation investments are composed of mutual funds, debt and equity securities, certificates of deposits, and are carried at fair value. Fluctuations in fair values are reflected in the period they occur. Certain funds have been pooled for ease of management and to achieve greater diversification in investments.

At June 30, 2004 the Foundation had market risk from concentration of investments in cash equivalents and investments with common fund of \$7,612,872, which represents 90% of cash and investments.

Accounts Receivable

The NSC's accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts was \$277,387 at June 30, 2004.

WSC	\$147,867
CSC	\$ 65,000
PSC	\$ 64,520

Deferred Bond Issue Costs

The NSC's bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2004, was \$504,531.

WSC	\$184,920
CSC	\$202,360
PSC	\$ 31,944
NSC Office	\$ 85,307

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Inventories

The NSC's inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Loans to Students

The NSC makes loans to students under the Federal Perkins Loan Program. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$417,950 at June 30, 2004.

WSC	\$197,950
CSC	\$120,000
PSC	\$100,000

Capital Assets

The NSC's capital assets are recorded at cost as of the date of acquisition, or fair value at the date of donation if acquired by gift. Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Also, all land, buildings, infrastructure, and construction in progress are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of each asset, with one-half of one year's depreciation taken in the first and last years of the asset life. The following estimated useful lives are being used by the NSC:

Buildings and improvements	20 – 50 years
Infrastructure	10 – 50 years
Furniture, fixtures, and equipment	3 – 10 years
Library materials	5 years

Compensated Absences

The NSC's policies permit most employees to accumulate vacation benefits. Staff earn 12 to 25 days of vacation each year and may carry over vacation earned during the prior year. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or cash. In addition, certain classified staff receive a cash payment of one-fourth of accrued sick leave upon retirement from the NSC. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as an expense when the time off occurs.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Concluded)

Deferred Revenue

Deferred revenue represents unearned student tuition and fees and advances on grants and contract awards for which the NSC has not met all of the applicable eligibility requirements.

Classification of Revenues

The NSC has classified its revenues as either operating or nonoperating revenues according to the following criteria.

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, and (3) interest on student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the NSC, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State, or nongovernmental programs, are recorded as operating revenues in the NSC's financial statements. To the extent revenues from such programs are used to satisfy tuition and fees and other student charges, the NSC has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended June 30, 2004, were \$7,213,948 and \$2,704,045, respectively.

	Tuition and Fees	Auxiliary Enterprises
WSC	\$ 3,204,074	\$ 1,441,987
CSC	\$ 2,446,043	\$ 598,208
PSC	\$ 1,563,831	\$ 663,850

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Deposits, Investments, and Investment Return**

Deposits

At June 30, 2004, the carrying value of the NSC's bank deposits was \$932,661 and the bank balance was \$1,006,539. The bank balance at June 30, 2004, was entirely covered by federal depository insurance and collateral held by the pledging institution's agent in other than the NSC's name. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies and instrumentalities of the State of Nebraska; or a surety bond having an aggregate value at least equal to the amount of the deposits. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

The NSC State Investment Pool balance of \$18,620,021 at June 30, 2004, was maintained with the Nebraska State Treasurer. By State Statute, the Treasurer is required to ensure that all State funds are either insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The NSC's deposits with the Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, deposited in banks or invested as the Treasurer may determine.

Investments

The NSC may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

The NSC's investments are categorized to give an indication of the level of custodial credit risk assumed by the NSC. Category 1 includes investments that are insured or registered or for which the securities are held by the NSC or its agent in the NSC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the NSC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the NSC's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank.

The NSC's investments in money market funds and State pooled investments are not classified by custodial risk, as they are not evidenced by securities that exist in physical or book entry form.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Deposits, Investments, and Investment Return** (Continued)

	<u>Fair Value</u>
Federal Home Loan Bank Deposits – Category 3	\$ 1,875,644
Equity Securities – Category 3	153,512
Governmental Securities Money Market Funds – Uncategorized	8,331,381
Certificates of Deposit – Uncategorized	95,000
State Investment Pool – Uncategorized	18,620,021
	<u>\$ 29,075,558</u>

Summary of Fair Values

The fair values of deposits and investments shown above are included in the statement of net assets as follows:

Fair value	
Deposits-(Bank Deposits)	\$ 932,661
Investments	29,075,558
Total as of June 30, 2004	<u>\$ 30,008,219</u>
Included in the Statement of	
Net Assets	
Cash and Cash Equivalents	\$ 11,923,172
Restricted Cash and Cash Equivalents	16,731,316
Investments held by Trustee	1,353,731
	<u>\$ 30,008,219</u>

The Chadron State Foundation's investments are stated at fair value and are shown below as of June 30, 2004:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
MGAM Core Equity, LLC	\$ 1,729,514	\$ 2,097,262	\$ 367,748
MGAM International Equity, LLC	382,551	400,205	17,654
MGAM Small MidCap Equity, LLC	810,500	1,078,766	268,266
MGAM Cash Reserve, LLC	252,480	254,794	2,314
MGAM Core Income, LLC	1,127,765	1,139,918	12,153
MGAM Total Return, LLC	<u>893,880</u>	<u>927,827</u>	<u>33,947</u>
Totals	5,196,690	5,898,772	702,082
Investment in Chadron			
Communications	<u>1,482</u>	<u>1,482</u>	<u>-</u>
Total Investments	<u>\$ 5,198,172</u>	<u>\$ 5,900,254</u>	<u>\$ 702,082</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Deposits, Investments, and Investment Return** (Concluded)

The Peru State Foundation's investments are reported at their fair value and are summarized as follows for the year ended December 31, 2003.

	Non-endowed	Endowed	Total
Equity Funds	\$ 2,114,152	\$ 3,087,466	\$ 5,201,618
Fixed Income Funds	1,291,191	1,885,631	3,176,822
Total	<u>\$ 3,405,343</u>	<u>\$ 4,973,097</u>	<u>\$ 8,378,440</u>

The Wayne State Foundation's investments are reported at their fair value and are summarized as follows for the year ended June 30, 2004.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Certificates of Deposits	\$ 41,876	\$ -	\$ 103,406	\$ 145,282
Common Fund				
Equity Fund	506,098	-	4,077,352	4,583,450
Common Fund				
Bond Fund	205,895	-	2,256,639	2,462,534
Subtotal Common Fund	711,993	-	6,333,991	7,045,984
Other Mutual Funds	-	38,757	103,175	141,932
Totals	<u>\$ 753,869</u>	<u>\$ 38,757</u>	<u>\$ 6,540,572</u>	<u>\$ 7,333,199</u>

3. **Capital Assets**

The NSC capital assets activity for the year ended June 30, 2004 was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 556,631	\$ 58,649	\$ -	\$ -	\$ 615,280
Building and Improvements	87,205,099	-	-	16,960,534	104,165,633
Infrastructure	11,104,401	-	-	5,347,944	16,452,345
Furniture, Fixtures, and Equipment	3,206,810	403,803	150,221	28,248	3,488,640
Library Materials	7,950,812	383,756	189,017	-	8,145,551
Art	122,442	-	-	45,807	168,249
Construction in Progress	20,215,155	10,145,933	-	(22,382,533)	7,978,555
	<u>130,361,350</u>	<u>10,992,141</u>	<u>339,238</u>	<u>-</u>	<u>141,014,253</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Capital Assets** (Concluded)

<u>Accumulated Depreciation</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Buildings and Improvements	35,587,322	1,935,717	-	-	37,523,039
Infrastructure	4,083,030	443,054	-	-	4,526,084
Furniture, Fixtures, and Equipment	2,043,262	403,539	137,593	-	2,309,208
Library Materials	6,693,587	496,905	189,017	-	7,001,475
Total Depreciation	48,407,201	3,279,215	326,610	-	51,359,806
Net Capital Assets	\$ 81,954,149	\$ 7,712,926	\$ 12,628	\$ -	\$ 89,654,447

<u>Net Assets by Facility</u>	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>NSC Office</u>	<u>Balance</u>
Land	\$ 446,229	\$ 49,395	\$ 119,656	\$ -	\$ 615,280
Building and Improvements	25,813,270	21,691,555	19,137,769	-	66,642,594
Infrastructure	8,711,302	1,392,695	1,822,264	-	11,926,261
Furniture, Fixtures, and Equipment	404,159	475,982	296,786	2,505	1,179,432
Library Materials	427,849	587,378	128,849	-	1,144,076
Art	123,249	45,000	-	-	168,249
Construction in Progress	5,015,749	2,163,908	798,898	-	7,978,555
	\$ 40,941,807	\$ 26,405,913	\$ 22,304,222	\$ 2,505	\$ 89,654,447

4. **Long-Term Liabilities**

The following is a summary of long-term obligation transactions for the NSC for the year ended June 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bond Anticipation Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds	-	6,910,000	-	6,910,000	-
Revenue and Refunding Bonds	14,315,000	-	375,000	13,940,000	610,000
Facilities Corporation Bonds	16,600,000	-	2,125,000	14,475,000	2,190,000
Total Long-Term Debt	30,915,000	6,910,000	2,500,000	35,325,000	2,800,000

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Long-Term Liabilities** (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other Noncurrent Liabilities:					
Accrued Compensated Absences	1,763,541	-	9,691	1,753,850	1,278,858
Unamortized Bond Premium	192,923	-	38,585	154,338	38,585
Other Liabilities	196,855	-	25,553	171,301	25,837
Total Other Noncurrent Liabilities	<u>2,153,319</u>	<u>-</u>	<u>73,829</u>	<u>2,079,489</u>	<u>1,343,280</u>
Total Noncurrent Liabilities	<u>\$ 33,068,319</u>	<u>\$ 6,910,000</u>	<u>\$ 2,573,829</u>	<u>\$ 37,404,489</u>	<u>\$ 4,143,280</u>

Student Fees and Facilities Revenue Bonds

In November 2003, the Board of Trustees of the Nebraska State College System authorized the issuance of \$5,085,000 and \$1,825,000 of Student Fees and Facilities Revenue Bonds Series 2003A and 2003B. The purpose of the issuance was to finance improvements to the colleges' facilities. Under the bond resolution for Student Fees and Facilities Revenue Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The amounts for Wayne and Chadron State College's portion of the bond obligation were \$1,825,000 and \$5,085,000, respectively, bearing interest at rates from 1.6% to 5.0%, with payments due from 2005 to 2028.

Student Fees and Facilities Revenue and Refunding Bonds

In August 2002, the Board of Trustees of the Nebraska State College System authorized the issuance of \$14,315,000 of Student Fees and Facilities Revenue and Refunding Bonds Series 2002. The purpose of the issuance was to provide payment and redemption of outstanding Revenue Bonds and Revenue Bond Anticipation Notes, refinance existing long-term debt, and finance improvements to the colleges' facilities. Under the bond resolution for Student Fees and Facilities Revenue and Refunding Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The amounts for Peru, Wayne, and Chadron State College's portion of the bond obligation were \$3,605,000, \$8,195,000, and \$2,515,000, respectively, bearing interest at rates from 1.6% to 5.0%, with payments due from 2003 to 2027.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Long-Term Liabilities** (Continued)

Nebraska State College Facilities Corporation Bonds

In July 1999, the Nebraska State College Facilities Corporation authorized the issuance of \$6,845,000 of Series 1999 Bonds. Proceeds are used by the Nebraska State Colleges for various deferred maintenance, repair, and renovation capital projects on their respective campuses. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations and special student fees. The bonds bear interest payable semiannually, at rates of 4.00% - 5.05% and are due in semiannual installments, which began March 15, 2000. Principal maturities began September 15, 2000, and continue until 2009.

In January 2002, the Nebraska State College Facilities Corporation authorized the issuance of \$11,375,000 of Series 2002 Bonds. Proceeds are used for the Peru State College Library and Academic Resource Center Project and the Wayne State College Energy Plant Project. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations. The bonds bear interest payable semiannually, at rates of 2.0% - 5.0% and are due in semiannual installments, which began September 1, 2002. Principal maturities began March 1, 2003, and continue until 2009.

The debt service requirements as of June 30, 2004 are as follows:

Wayne State College Revenue and Refunding Bonds			
Year Ending	Principal	Interest	Total
June 30			
2005	\$ 215,000	\$ 417,659	\$ 632,659
2006	325,000	407,150	732,150
2007	335,000	399,688	734,688
2008	340,000	390,835	730,835
2009	350,000	380,663	730,663
2010-2014	1,940,000	1,706,863	3,646,863
2015-2019	2,360,000	1,271,576	3,631,576
2020-2024	2,020,000	758,518	2,778,518
2025-2027	2,000,000	206,000	2,206,000
Total	<u>\$ 9,885,000</u>	<u>\$ 5,938,952</u>	<u>\$ 15,823,952</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

Chadron State College Revenue and Refunding Bonds

Year Ending	Principal	Interest	Total
June 30			
2005	\$ 295,000	\$ 326,428	\$ 621,428
2006	305,000	300,668	605,668
2007	305,000	293,043	598,043
2008	320,000	284,126	604,126
2009	320,000	274,046	594,046
2010-2014	1,325,000	1,208,955	2,533,955
2015-2019	1,155,000	982,296	2,137,296
2020-2024	1,455,000	668,319	2,123,319
2025-2028	1,880,000	244,500	
Total	\$ 7,360,000	\$ 4,582,381	\$ 11,942,381

Peru State College Revenue and Refunding Bonds

Year Ending	Principal	Interest	Total
June 30			
2005	\$ 100,000	\$ 155,698	\$ 255,698
2006	100,000	153,622	253,622
2007	100,000	151,123	251,123
2008	100,000	148,272	248,272
2009	105,000	145,040	250,040
2010-2014	585,000	663,718	1,248,718
2015-2019	710,000	531,526	1,241,526
2020-2024	905,000	341,172	1,246,172
2025-2027	900,000	92,500	992,500
Total	\$ 3,605,000	\$ 2,382,671	\$ 5,987,671

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Concluded)

Facilities Corporation Bonds			
<u>Year Ending</u>			
June 30	Principal	Interest	Total
2005	\$ 2,190,000	\$ 633,060	\$ 2,823,060
2006	2,280,000	545,137	2,825,137
2007	2,370,000	448,934	2,818,934
2008	2,480,000	343,758	2,823,758
2009	3,715,000	240,290	3,955,290
2010-2014	1,440,000	36,360	1,476,360
Total	<u>\$ 14,475,000</u>	<u>\$ 2,247,539</u>	<u>\$ 16,722,539</u>

Nebraska State College System Bond Summary			
<u>Year Ending</u>			
June 30	Principal	Interest	Total
2005	\$ 2,800,000	\$ 1,532,845	\$ 4,332,845
2006	3,010,000	1,406,577	4,416,577
2007	3,110,000	1,292,788	4,402,788
2008	3,240,000	1,166,991	4,406,991
2009	4,490,000	1,040,039	5,530,039
2010-2014	5,290,000	3,615,896	8,905,896
2015-2019	4,225,000	2,785,398	7,010,398
2020-2024	4,380,000	1,768,009	6,148,009
2025-2028	4,780,000	543,000	5,323,000
Total	<u>\$ 35,325,000</u>	<u>\$ 15,151,543</u>	<u>\$ 50,476,543</u>

The bond resolutions of the Facilities Corporation Bonds, the Refunding Bonds, and the Revenue Bonds specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for the funds' investments. The bond resolutions also contain certain covenants, including compliance with a ratio of net revenues to debt service. At June 30, 2004, the NSC was in compliance with these requirements.

5. Operating Leases

Noncancellable operating leases for educational service expenses expire in various years through 2011. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the NSC to pay all executory costs (property taxes, maintenance, operating, and insurance).

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Operating Leases** (Concluded)

Future minimum lease payments at PSC as of June 30, 2004, were:

2005	\$	34,236
2006		34,176
2007		34,116
2008		34,056
2009		33,996
2010-2011		35,656
	\$	<u>206,236</u>

6. **Pension Plan**

The NSC has a defined contribution retirement plan currently in effect, which was established by the Board and may be amended by legislative action. The plan covers all academic faculty, administrative, and classified staff, and provides investment options and annuity contracts administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and may be amended by action of the Board of Trustees. Contribution rates for plan members and the NSC for 2004, expressed as a percentage of covered payroll, were 6% and 7.5%. Contributions actually made for the fiscal year ending June 30, 2004 by plan members and the NSC aggregated were \$1,735,722 and \$2,177,052, respectively.

Membership in the plan was mandatory for all full-time faculty and staff who attained the age of thirty. Voluntary membership is permitted for all full-time faculty and staff upon reaching the second anniversary of their employment and the attainment of age twenty-five. The plan benefits are fully vested at the date of contribution.

The NSC also sponsors a supplemental retirement annuity plan. Plan members contributed \$777,457 in 2004. The NSC does not contribute to this supplemental plan.

7. **Risk Management**

The NSC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and natural disasters. Settled claims have not exceeded this commercial

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Risk Management** (Concluded)

coverage in any of the three preceding years. The State of Nebraska self-insures natural disasters and workers' compensation for all State employees, including the NSC employees.

8. **Commitments and Contingencies**

Construction Contracts

The Board of Trustees has authorized and approved construction commitments of \$4,938,413 as of June 30, 2004. These projects will be funded through State monies, Foundation gifts, and capital improvement fees.

WSC	\$	845,830
CSC		3,794,053
PSC		298,530

Government Grants

The NSC is currently participating in numerous grants from various departments and agencies of the Federal and State governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the grant department or agency, the grants are considered closed.

9. **Reclassification**

For comparative purposes certain fiscal year ended June 30, 2003 figures shown on the 2003 Statement of Revenues, Expenses, and Changes in Net Assets have been reclassified to conform to the presentation policy adopted in the current year. The reclassified figures for the fiscal year ended June 30, 2003 include: \$3,367,348 of Nonoperating Revenues reclassified to Operating Revenues, \$172,530 of Nonoperating Revenues reclassified to Other Revenues, and \$152,365 Other Revenues reclassified as Operating Revenues.

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF NET ASSETS

June 30, 2004

	CSC	PSC	WSC	NSC Office	Total Primary Government
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 3,515,468	\$ 1,774,245	\$ 6,628,379	\$ 5,080	\$ 11,923,172
Restricted Cash and Cash Equivalents	798,490	473,465	620,923	1,269,971	3,162,849
Accounts Receivable, Net	185,803	101,570	164,583	-	451,956
State Grants and Appropriations Receivable	136,869	289,337	1,101,363	81,156	1,608,725
Other Receivables	257,022	31,645	66,705	-	355,372
Loans to Students, Net	180,419	85,692	334,447	-	600,558
Prepaid Expenses	89,509	41,769	47,728	220	179,226
Inventories	49,168	39,437	52,043	-	140,648
Total Current Assets	<u>5,212,748</u>	<u>2,837,160</u>	<u>9,016,171</u>	<u>1,356,427</u>	<u>18,422,506</u>
Noncurrent Assets					
Restricted Cash and Cash Equivalents	5,127,091	1,055,300	4,470,508	2,915,568	13,568,467
Restricted Investments Held by Trustee	335,805	243,945	620,469	153,512	1,353,731
Other Receivables	-	8,945	-	1,035	9,980
Loans to Students, Net	896,024	316,670	883,968	-	2,096,662
Capital Assets, Net	26,405,913	22,304,222	40,941,807	2,505	89,654,447
Deferred Bond Issue Costs	202,360	31,944	184,920	85,307	504,531
Total Noncurrent Assets	<u>32,967,193</u>	<u>23,961,026</u>	<u>47,101,672</u>	<u>3,157,927</u>	<u>107,187,818</u>
Total Assets	<u>38,179,941</u>	<u>26,798,186</u>	<u>56,117,843</u>	<u>4,514,354</u>	<u>125,610,324</u>
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,990,691	679,020	2,632,539	2,227	5,304,477
Accrued Compensated Absences	368,324	198,490	643,108	68,936	1,278,858
Other Liabilities	1,728	24,109	-	-	25,837
Deferred Revenue	97,792	246,339	83,001	-	427,132
Interest Payable	174,340	78,311	212,408	-	465,059
Long-Term Debt - Current Portion	295,000	100,000	215,000	2,190,000	2,800,000
Deposits Held in Custody for Others	98,870	88,066	183,165	-	370,101
Unamortized Bond Premium	-	-	-	38,585	38,585
Total Current Liabilities	<u>3,026,745</u>	<u>1,414,335</u>	<u>3,969,221</u>	<u>2,299,748</u>	<u>10,710,049</u>
Noncurrent Liabilities					
Accrued Compensated Absences	117,105	100,320	213,991	43,576	474,992
Long Term Debt	7,065,000	3,505,000	9,670,000	12,285,000	32,525,000
Other Noncurrent Liabilities	791	144,673	-	-	145,464
Unamortized Bond Premium	-	-	-	115,753	115,753
Total Noncurrent Liabilities	<u>7,182,896</u>	<u>3,749,993</u>	<u>9,883,991</u>	<u>12,444,329</u>	<u>33,261,209</u>
Total Liabilities	<u>10,209,641</u>	<u>5,164,328</u>	<u>13,853,212</u>	<u>14,744,077</u>	<u>43,971,258</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	19,045,913	18,652,855	31,241,727	(14,541,526)	54,398,969
Restricted for:					
Expendable					
Loans	1,292,610	466,176	1,336,361	-	3,095,147
Debt Service	5,280,587	1,367,569	4,599,751	3,519,897	14,767,804
Other	624,076	210,908	289,754	820,189	1,944,927
Unrestricted	1,727,114	936,350	4,797,038	(28,283)	7,432,219
Total Net Assets	<u>\$ 27,970,300</u>	<u>\$ 21,633,858</u>	<u>\$ 42,264,631</u>	<u>\$ (10,229,723)</u>	<u>\$ 81,639,066</u>

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Fiscal Year Ended June 30, 2004

	CSC	PSC	WSC	NSC Office	Total Primary Government
Operating Revenues					
Tuition and Fees, Net	\$ 4,196,390	\$ 2,372,569	\$ 7,168,745	\$ -	\$ 13,737,704
Federal Grants and Contracts	3,323,451	1,544,224	4,046,068	-	8,913,743
State Grants and Contracts	747,784	237,467	292,887	-	1,278,138
Private Grants and Contracts	470,303	348,400	302,855	-	1,121,558
Auxiliary Enterprises, Net	3,274,277	1,189,249	4,260,557	-	8,724,083
Other Operating Revenues	30,275	137,254	175,013	20,040	362,582
Total Operating Revenues	<u>12,042,480</u>	<u>5,829,163</u>	<u>16,246,125</u>	<u>20,040</u>	<u>34,137,808</u>
Operating Expenses					
Compensation and Benefits	15,267,846	7,387,666	19,410,301	678,432	42,744,245
Contractual Services	666,668	416,878	1,179,982	113,547	2,377,075
Supplies and Materials	2,256,880	670,339	1,258,000	-	4,185,219
Scholarships and Fellowships	878,094	76,263	(103,505)	-	850,852
Depreciation	1,236,540	614,222	1,427,759	695	3,279,216
Utilities	920,814	668,539	1,485,384	-	3,074,737
Repairs and Maintenance	665,628	252,946	644,054	-	1,562,628
Communications	303,031	190,978	441,922	-	935,931
Food Service	765,780	562,051	1,213,191	-	2,541,022
Other Operating Expenses	909,533	1,473,262	2,114,220	201,489	4,698,504
Total Operating Expenses	<u>23,870,814</u>	<u>12,313,144</u>	<u>29,071,308</u>	<u>994,163</u>	<u>66,249,429</u>
Operating Loss	<u>(11,828,334)</u>	<u>(6,483,981)</u>	<u>(12,825,183)</u>	<u>(974,123)</u>	<u>(32,111,621)</u>
Nonoperating Revenues (Expenses)					
State Appropriations	12,235,491	6,656,856	14,641,183	887,825	34,421,355
Investment Income	201,540	92,472	320,753	137,818	752,583
Interest on Capital Asset-Related Debt	(207,973)	(156,622)	(351,403)	(658,894)	(1,374,892)
Other Nonoperating Revenues (Expenses)	(30,518)	15,014	(46,554)	705	(61,353)
Net Nonoperating Revenues	<u>12,198,540</u>	<u>6,607,720</u>	<u>14,563,979</u>	<u>367,454</u>	<u>33,737,693</u>
Income (Loss) Before Other Revenues and Transfers	<u>370,206</u>	<u>123,739</u>	<u>1,738,796</u>	<u>(606,669)</u>	<u>1,626,072</u>
Other Revenues, and Transfers					
Federal Grants and Contracts	100,000	-	-	-	100,000
Capital Facilities Fees	-	-	-	928,207	928,207
Capital Appropriations and Grants	1,320,104	468,947	327,101	2,190,592	4,306,744
Capital Contributions	-	29,606	856,829	-	886,435
Transfers	173,751	2,033,004	360,125	(2,566,880)	-
Total Other Revenues, and Transfers	<u>1,593,855</u>	<u>2,531,557</u>	<u>1,544,055</u>	<u>551,919</u>	<u>6,221,386</u>
Increase in Net Assets	1,964,061	2,655,296	3,282,851	(54,750)	7,847,458
Net Assets, Beginning of Year	<u>26,006,239</u>	<u>18,978,562</u>	<u>38,981,780</u>	<u>(10,174,973)</u>	<u>73,791,608</u>
Net Assets, End of Year	<u>\$ 27,970,300</u>	<u>\$ 21,633,858</u>	<u>\$ 42,264,631</u>	<u>\$ (10,229,723)</u>	<u>\$ 81,639,066</u>

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2004

	<u>CSC</u>	<u>PSC</u>	<u>WSC</u>	<u>NSC Office</u>	<u>Total Primary Government</u>
Cash Flows From Operating Activities					
Tuition and Fees	\$ 4,147,557	\$ 2,453,638	\$ 7,233,613	\$ -	\$ 13,834,808
Grants and Contracts	4,541,538	2,130,091	4,641,810	-	11,313,439
Payments to Suppliers	(6,443,658)	(3,353,285)	(6,937,669)	(170,482)	(16,905,094)
Payments for Utilities	(920,814)	(668,539)	(1,485,384)	-	(3,074,737)
Payments to Employees	(15,301,322)	(7,507,686)	(19,368,925)	(669,025)	(42,846,958)
Sales and Services of Auxiliary Enterprises	3,268,829	1,178,020	4,272,285	-	8,719,134
Loans Issued to Students	(323,745)	(72,426)	(341,938)	-	(738,109)
Collections of Loans to Students	282,535	93,470	395,247	-	771,252
Other Receipts (Payments)	67,523	60,991	278,518	(156,673)	250,359
Net Cash Used by Operating Activities	<u>(10,681,557)</u>	<u>(5,685,726)</u>	<u>(11,312,443)</u>	<u>(996,180)</u>	<u>(28,675,906)</u>
Cash Flows From Noncapital Financing Activities					
State Appropriations	12,177,091	6,826,762	14,211,322	978,781	34,193,956
Grants and Contracts	(29,676)	(23,548)	(128,164)	-	(181,388)
Other Receipts	-	15,014	-	40,000	55,014
Net Cash Provided by Noncapital Financing Activities	<u>12,147,415</u>	<u>6,818,228</u>	<u>14,083,158</u>	<u>1,018,781</u>	<u>34,067,582</u>
Cash Flows From Capital and Related Financing Activities					
Receipt from State for Capital Purchases	1,402,939	468,947	327,101	2,190,592	4,389,579
Purchase of Capital Assets	(3,772,732)	(2,663,066)	(5,070,430)	-	(11,506,228)
Proceeds from Issuance of Capital Debt	5,085,000	-	1,825,000	-	6,910,000
Principal Paid on Capital Debt	(240,000)	-	(135,000)	(2,125,000)	(2,500,000)
Interest Paid on Capital Debt	(190,364)	(178,058)	(341,880)	(677,926)	(1,388,228)
Capital Contributions	-	29,606	856,829	-	886,435
Capital Facilities Fees	-	-	-	928,207	928,207
Federal Grants and Contracts	100,000	-	-	-	100,000
Transfers from/to Board	173,751	2,033,004	360,125	(2,566,880)	-
Other Receipts (Payments)	(30,518)	-	(46,555)	(40,330)	(117,403)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>2,528,076</u>	<u>(309,567)</u>	<u>(2,224,810)</u>	<u>(2,291,337)</u>	<u>(2,297,638)</u>
Cash Flows From Investing Activities					
Proceeds from Sales and Maturities of Investments	(35,148)	-	191,109	1,811,663	1,967,624
Purchase of Investments	-	(243,945)	-	-	(243,945)
Investment Income	201,540	92,472	320,753	137,818	752,583
Net Cash Provided (Used) by Investing Activities	<u>166,392</u>	<u>(151,473)</u>	<u>511,862</u>	<u>1,949,481</u>	<u>2,476,262</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>4,160,326</u>	<u>671,462</u>	<u>1,057,767</u>	<u>(319,255)</u>	<u>5,570,300</u>
Cash and Cash Equivalents, Beginning of Year	<u>5,280,723</u>	<u>2,631,548</u>	<u>10,662,043</u>	<u>4,509,874</u>	<u>23,084,188</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,441,049</u>	<u>\$ 3,303,010</u>	<u>\$ 11,719,810</u>	<u>\$ 4,190,619</u>	<u>\$ 28,654,488</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and Cash Equivalents	\$ 3,515,468	\$ 1,774,245	\$ 6,628,379	\$ 5,080	\$ 11,923,172
Restricted Cash and Cash Equivalents - Current	798,490	473,465	620,923	1,269,971	3,162,849
Restricted Cash and Cash Equivalents - Noncurrent	5,127,091	1,055,300	4,470,508	2,915,568	13,568,467
Total Cash and Cash Equivalents	<u>\$ 9,441,049</u>	<u>\$ 3,303,010</u>	<u>\$ 11,719,810</u>	<u>\$ 4,190,619</u>	<u>\$ 28,654,488</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities					
Operating Loss	\$ (11,828,334)	\$ (6,483,981)	\$ (12,825,183)	\$ (974,123)	\$ (32,111,621)
Depreciation Expense	1,236,540	614,222	1,427,759	695	3,279,216
Changes in Operating Assets and Liabilities					
Receivables, Net	(136,578)	(19,759)	39,406	-	(116,931)
Inventories	(13,156)	(25,765)	2,707	-	(36,214)
Federal and State Grants	130,078	174,247	(94,527)	-	209,798
Accrued Compensated Absences	(22,315)	(35,221)	38,438	9,407	(9,691)
Other Assets and Liabilities	(47,792)	90,531	98,957	(32,159)	109,537
Net Cash Used in Operating Activities	<u>\$ (10,681,557)</u>	<u>\$ (5,685,726)</u>	<u>\$ (11,312,443)</u>	<u>\$ (996,180)</u>	<u>\$ (28,675,906)</u>
Supplemental Cash Flows Information					
Accounts Payable Incurred for Capital Asset Purchases	\$ 578,095	\$ -	\$ 860,174	\$ -	\$ 1,438,269

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Expenditures
U.S. Department of Education:			
Student Financial Aid:			
Supplemental Educational Opportunity Grant		84.007	\$ 179,654
Federal Family Education Loan		84.032	12,281,133
Federal Work Study		84.033	541,659
Perkins Loan		84.038	3,877,144
Pell Grant		84.063	6,374,697
Federal Direct Loan		84.268	<u>3,747,918</u>
<i>Total Student Financial Aid</i>			27,002,205
Trio Student Support Services		84.042	758,190
Fund for the Improvement of Postsecondary Education		84.116	73,717
Migrant Education - State Grant Program	NE ESU #13 Scottsbluff	84.011	4,244
Special Education Grants to States	NE Dept. of Education	84.027	5,252
Leveraging Educational Assistance Partnership Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.069	73,712
Special Education Preschool Grants	NE Dept. of Education	84.173	18,394
Dwight D. Eisenhower Professional Development State Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.281	16,702
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	36,044
Preparing Tomorrow's Teachers to Use Technology	NE Dept. of Education	84.342	1,909

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

<u>Federal Agency Cluster/Program</u>	<u>Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education, Continued:			
Improving Teacher Quality State Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.367	85,548
Early Childhood Educator Professional Development	NE ESU #3 Omaha	84.349	<u>2,341</u>
<i>Total U.S. Dept. of Education</i>			28,078,258
U.S. Dept. of Agriculture:			
Cooperative Forestry Assistance	NE Forest Service	10.664	70,000
Rural Development, Forestry, and Communities	NE Forest Service	10.672	<u>30,000</u>
<i>Total U.S. Dept. of Agriculture:</i>			100,000
U.S. Dept. of Interior:			
U.S. Geological Survey Research and Data Acquisition		15.808	<u>59,834</u>
U.S. Dept. of Justice:			
Grants To Reduce Violent Crimes Against Women on Campus		16.525	<u>42,436</u>
U.S. Dept. of Transportation:			
Highway Planning and Construction	NE Dept. of Roads	20.205	<u>68,670</u>
National Foundation on Arts & Humanities:			
Promotion of the Arts / Grants to Organizations and Individuals		45.024	<u>500</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Expenditures
National Science Foundation:			
Biological Sciences	Academy of Natural Sciences of Philadelphia	47.074	7,522
	University of Minnesota	47.074	710
Education and Human Resources	University of Nebraska	47.076	<u>3,875</u>
<i>Total National Science Foundation</i>			12,107
U.S. Small Business Administration:			
Small Business Development Center	University of Nebraska at Omaha	59.037	<u>72,112</u>
U.S. Dept. of Health and Human Services:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	NE Health & Human Services System	93.283	9,166
Research Infrastructure	University of Nebraska Medical Center	93.389	356,060
Rural Health Outreach and Rural Network Development	Golden Rod Hills Comm. Action	93.912	<u>1,654</u>
<i>Total U.S. Dept. of Health and Human Services</i>			366,880
Corporation for National and Community Service:			
Learn and Serve America School and Community Based Programs	University of Nebraska at Lincoln	94.004	<u>5,187</u>
<i>Total Federal Awards</i>			<u>\$ 28,805,984</u>

See Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

- Note 1:** This schedule includes the Federal awards activity of the Nebraska State College System (NSC) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2:** The NSC did not provide Federal awards to subrecipients.
- Note 3:** Major programs were determined in accordance with OMB Circular A-133. The Student Financial Aid Cluster was considered the major program for the NSC.
- Note 4:** The NSC administers the Perkins Loan Program for which the Federal government imposes continuing compliance requirements (other than repayment of the loan). In accordance with OMB Circular A-133, expenditures for the Perkins Loan Program includes the balance of loans from previous years of \$3,132,320, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received.

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Chadron	Peru	Wayne	Total
U.S. Department of Education:						
Student Financial Aid:						
Supplemental Educational Opportunity Grant		84.007	\$ 62,847	\$ 36,721	\$ 80,086	\$ 179,654
Federal Family Education Loan		84.032	823,720	2,845,749	8,611,664	12,281,133
Federal Work Study		84.033	299,276	86,820	155,563	541,659
Perkins Loan		84.038	1,477,951	594,768	1,804,425	38,771,744
Pell Grant		84.063	2,376,827	1,121,954	2,875,916	6,374,697
Federal Direct Loan		84.268	3,747,918	-	-	3,747,918
<i>Total Student Financial Aid</i>			8,788,539	4,686,012	13,527,654	27,002,205
Trio Student Support Services		84.042	195,904	293,900	268,386	758,190
Fund for the Improvement of Postsecondary Education		84.116	-	-	73,717	73,717
Migrant Education - State Grant Program	NE ESU #13 Scottsbluff	84.011	-	-	4,244	4,244
Special Education Grants to States	NE Dept. of Education	84.027	5,252	-	-	5,252
Leveraging Educational Assistance Partnership Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.069	26,366	9,686	37,660	73,712

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Chadron	Peru	Wayne	Total
U.S. Department of Education, Concluded:						
Special Education Preschool Grants	NE Dept. of Education	84.173	18,394	-	-	18,394
Dwight D. Eisenhower Professional Development State Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.281	-	-	16,702	16,702
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	1,329	-	34,715	36,044
Preparing Tomorrow's Teachers to Use Technology	NE Dept. of Education	84.342	-	-	1,909	1,909
Improving Teacher Quality State Grants	NE Dept. of Education Coordinating Commission for Post Secondary Education	84.367	36,044	-	49,504	85,548
Early Childhood Educator Professional Development	NE ESU #3 Omaha	84.349	-	-	2,341	2,341
Total U.S. Dept. of Education			9,071,828	4,989,598	14,016,832	28,078,258

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Chadron	Peru	Wayne	Total
U.S. Dept. of Agriculture:						
Cooperative Forestry Assistance	NE Forest Service	10.664	70,000	-	-	70,000
Rural Development, Forestry, and Communities	NE Forest Service	10.672	30,000	-	-	30,000
<i>Total U.S. Dept. of Agriculture:</i>			100,000	-	-	100,000
U.S. Dept. of Interior:						
U.S. Geological Survey Research and Data Acquisition		15.808	59,834	-	-	59,834
U.S. Dept. of Justice:						
Grants To Reduce Violent Crimes Against Women on Campus		16.525	-	-	42,436	42,436
U.S. Dept. of Transportation:						
Highway Planning and Construction	NE Dept. of Roads	20.205	68,670	-	-	68,670
National Foundation on Arts & Humanities:						
Promotion of the Arts / Grants to Organizations and Individuals		45.024	-	-	500	500

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Chadron	Peru	Wayne	Total
National Science Foundation: Biological Sciences	Academy of Natural Sciences of Philadelphia	47.074	-	-	7,522	7,522
	University of Minnesota	47.074	-	-	710	710
Education and Human Resources	University of Nebraska	47.076	-	-	3,875	3,875
<i>Total National Science Foundation</i>			-	-	12,107	12,107
U.S. Small Business Administration: Small Business Development Center	University of Nebraska at Omaha	59.037	15,906	-	56,206	72,112
U.S. Dept. of Health and Human Services: Centers for Disease Control and Prevention - Investigations and Technical Assistance	NE Health & Human Services System	93.283	9,166	-	-	9,166
Research Infrastructure	University of Nebraska Medical Center	93.389	176,480	-	179,580	356,060

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2004

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Chadron	Peru	Wayne	Total
U.S. Dept. of Health and Human Services, Concluded:						
Rural Health Outreach and Rural Network Development	Golden Rod Hills Comm. Action	93.912	-	-	1,654	1,654
<i>Total U.S. Dept. of Health and Human Services</i>			185,646	-	181,234	366,880
Corporation for National and Community Service:						
Learn and Serve America School and Community Based Programs	University of Nebraska at Lincoln	94.004	-	-	5,187	5,187
<i>Total Federal Awards</i>			<u>\$ 9,501,884</u>	<u>\$ 4,989,598</u>	<u>\$ 14,314,502</u>	<u>\$ 28,805,984</u>
						(Concluded)

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

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We have audited the financial statements of the Nebraska State College System (NSC) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 10, 2004, which referred to implementation of a new accounting standard. We did not audit the financial statements of Chadron State, Peru State, and Wayne State Foundations, discretely presented component units of NSC, as of and for the year ended June 30, 2004, December 31, 2003, and June 30, 2004, respectively. Those statements are presented separately on pages 11 through 13, 15 through 17, and 19 through 21. Those statements were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Chadron State, Peru State, and Wayne State Foundations, is based solely on the reports of those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the NSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or

operation of the internal control over financial reporting that, in our judgment, could adversely affect the NSC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as finding #04-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the NSC in a separate letter dated November 10, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain items that we reported to management of the NSC in a separate letter dated November 10, 2004.

This report is intended solely for the information and use of the governing body, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 10, 2004


Assistant Deputy Auditor

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Compliance

We have audited the compliance of the Nebraska State College System (NSC) with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely component units of NSC. The NSC's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the NSC's management. Our responsibility is to express an opinion on the NSC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the NSC's compliance with those requirements and performing such

other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the NSC's compliance with those requirements.

In our opinion, the Nebraska State College System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the NSC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the NSC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the governing body, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 10, 2004



Assistant Deputy Auditor

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2004

I. Summary of Auditor's Results

- a. Type of report issued as it related to the Nebraska State College System's (NSC) basic financial statements: Unqualified.
- b. A reportable condition in internal control was disclosed by the audit of the NSC's financial statements and is included in the Schedule of Findings and Questioned Costs in Part II, as item #04-01, which is not considered a material weakness.
- c. The audit disclosed no instances of noncompliance which were material to the NSC's basic financial statements.
- d. Type of report issued on compliance for major program: Unqualified.
- e. The following are considered major programs:
 - Student Financial Aid Cluster
 - CFDA #84.007 Federal Supplemental Educational Opportunity Grant
 - CFDA #84.032 Federal Family Education Loans
 - CFDA #84.033 Federal Work-Study Program
 - CFDA #84.038 Federal Perkins Loan Program
 - CFDA #84.063 Federal Pell Grant Program
 - CFDA #84.268 Federal Direct Student Loans
- f. The threshold used to distinguish between Type A and Type B programs: \$864,180.
- g. The NSC did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*:

Finding #04-01

1. Nebraska Information System and Accounting Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the Nebraska Information System (NIS). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004 the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State (Secretary of State). The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the administrator, (administrator means the State Records Administrator) schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.
- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, “We have now contracted with an outside vendor for business continuity planning.” Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.

- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
 - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to DAS, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

III. Findings and Questioned Costs Relating to Federal Awards:

NONE

IV. Summary Schedule of Prior Year Audit Findings:

Finding:	#03-01
Status:	#04-01
Finding:	#03-02
Status:	Corrective Action Taken