

**AUDIT REPORT  
OF THE  
NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)**

**JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on December 9, 2005**

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

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# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, NE 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

Kate Witek  
State Auditor  
[Kate.Witek@apa.ne.gov](mailto:Kate.Witek@apa.ne.gov)

## INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA  
Deputy State Auditor  
[Deann.Haeffner@apa.ne.gov](mailto:Deann.Haeffner@apa.ne.gov)

Board of Trustees of the Nebraska State College System  
Lincoln, Nebraska

Don Dunlap, CPA  
Asst. Deputy Auditor  
[Don.Dunlap@apa.ne.gov](mailto:Don.Dunlap@apa.ne.gov)

Pat Reding, CPA  
Asst. Deputy Auditor  
[Pat.Reding@apa.ne.gov](mailto:Pat.Reding@apa.ne.gov)

Tim Channer, CPA  
Asst. Deputy Auditor  
[Tim.Channer@apa.ne.gov](mailto:Tim.Channer@apa.ne.gov)

Mary Avery  
SAE/Finance Manager  
[Mary.Avery@apa.ne.gov](mailto:Mary.Avery@apa.ne.gov)

Dennis Meyer, CGFM  
Subdivision Budget  
Coordinator  
[Dennis.Meyer@apa.ne.gov](mailto:Dennis.Meyer@apa.ne.gov)

Mark Avery, CPA  
Subdivision Audit  
Review Coordinator  
[Mark.Avery@apa.ne.gov](mailto:Mark.Avery@apa.ne.gov)

Perry Pirsch, JD, MPA  
Legal Counsel  
[Perry.Pirsch@apa.ne.gov](mailto:Perry.Pirsch@apa.ne.gov)

We have audited the accompanying Statement of Net Assets of the Nebraska State College System (NSCS), a component unit of the State of Nebraska, as of June 30, 2005, 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 NSCS'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 NSCS, as of June 30, 2005, December 31, 2004, and June 30, 2005, respectively, and the related Statements of Activity and Cash Flows for the year then ended. Those statements are presented separately on pages 12 through 14, 16 through 18, and 21 through 23. 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. The Foundations' financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. 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 NSCS and the discretely presented component units of NSCS, as of June 30, 2005, and December 31, 2004, (Peru State Foundation) 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 NSCS adopted in 2005 the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment to GASB Statement No. 3.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 23, 2005, on our consideration of the NSCS'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 GASB. This supplementary information is the responsibility of NSCS management. 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 NSCS'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.



Assistant Deputy Auditor

November 23, 2005

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the Nebraska State College System's (NSCS) financial report presents a narrative overview and analysis of the financial activities of the NSCS for the fiscal year ended June 30, 2005. The analysis has been prepared by management of the System 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 System'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 System'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 NSCS is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the System'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 System's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the System'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 NSCS AS A WHOLE**

The NSCS includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), and the System 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 System Office.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

(Continued)

The audit for the fiscal year ended June 30, 2005, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSCS 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. Recent bonds issued by the Facilities Corporation include those authorized under LB 1100, passed in 1998, and LB 1, passed in 2001. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSCS 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 NSCS. Those foundations' financial statements are presented separately on pages 12 through 14, 16 through 18, and 21 through 23 of this report.

	<b>Primary Government</b>	
	<b>2005</b>	<b>2004</b>
<b>Current Assets</b>	\$ 19,655,531	\$ 18,422,506
 <b>Noncurrent Assets</b>		
Capital Assets, Net	93,910,635	89,654,447
Other Noncurrent Assets	14,308,153	17,533,371
Total Assets	127,874,319	125,610,324
 <b>Current Liabilities</b>	10,062,653	10,710,049
<b>Noncurrent Liabilities</b>	30,290,110	33,261,209
Total Liabilities	40,352,763	43,971,258
 <b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	61,528,695	54,398,969
Restricted	17,396,489	19,807,878
Unrestricted	8,596,372	7,432,219
Total Net Assets	\$ 87,521,556	\$ 81,639,066

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
(Continued)

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Tuition and Fees, Net	\$ 15,351,201	\$ 13,737,704
Federal and State Grants and Contracts	10,344,677	10,191,881
Private Grants and Contracts	1,297,235	1,121,558
Auxiliary Enterprises, Net	9,275,782	8,724,083
Other Operating Revenues	<u>617,643</u>	<u>362,582</u>
 Total Operating Revenues	 36,886,538	 34,137,808
 <b>Operating Expenses</b>	 70,995,524	 66,249,429
 <b>Operating Loss</b>	 (34,108,986)	 (32,111,621)
 <b>Nonoperating Revenues (Expenses)</b>		
State Appropriations	35,224,800	34,421,355
Investment Income	988,913	752,583
Interest on Capital Asset-Related Debt	(1,471,083)	(1,374,892)
Other Nonoperating Expenses	<u>(33,103)</u>	<u>(61,353)</u>
 Total Nonoperating Revenues	 34,709,527	 33,737,693
 <b>Income before Other Revenues</b>	 600,541	 1,626,072
Capital Federal Grants and Contracts	-	100,000
Capital Appropriations and Grants	4,270,078	4,306,744
Capital Contributions	98,544	886,435
Capital Facilities Fee	<u>913,327</u>	<u>928,207</u>
 <b>Increase in Net Assets</b>	 5,882,490	 7,847,458
 <b>Net Assets, Beginning of Year</b>	 <u>81,639,066</u>	 <u>73,791,608</u>
 <b>Net Assets, End of Year</b>	 <u>\$ 87,521,556</u>	 <u>\$ 81,639,066</u>

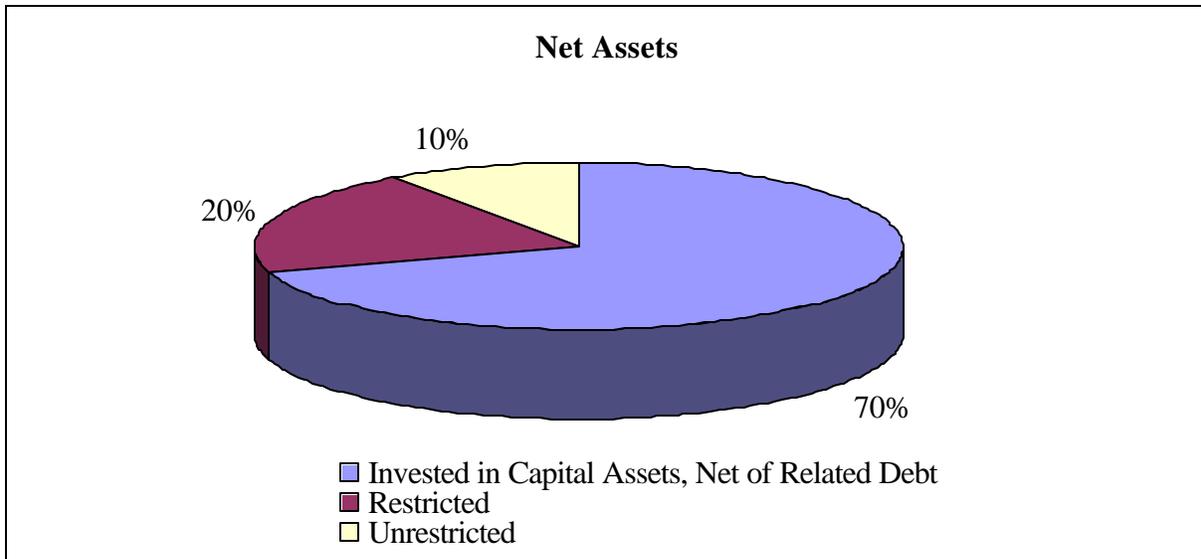
NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

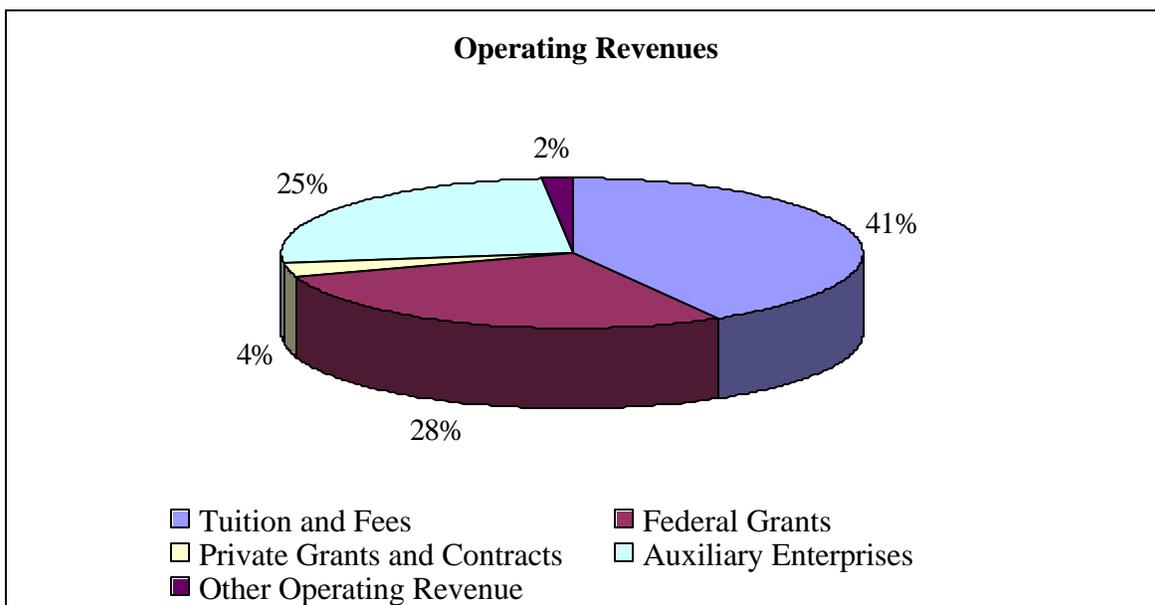
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**CHANGES IN NET ASSETS**

At June 30, 2005 the NSCS had net assets of \$87.5 million, an increase of \$5.9 million or 7.2% over 2004. The net assets were comprised of Unrestricted - \$8.6 million; Restricted - \$17.4 million, and Invested in Capital Assets, Net of Related Debt - \$61.5 million.



The operating revenues were \$36.9 million, compared to \$34.1 million in 2004, an 8.1% increase. They include \$15.4 million in tuition and fees; Federal and State grants and contracts of \$10.3 million; private grants and contracts of \$1.3 million, auxiliary enterprises (net) of \$9.3 million, and other operating revenues of \$.6 million.

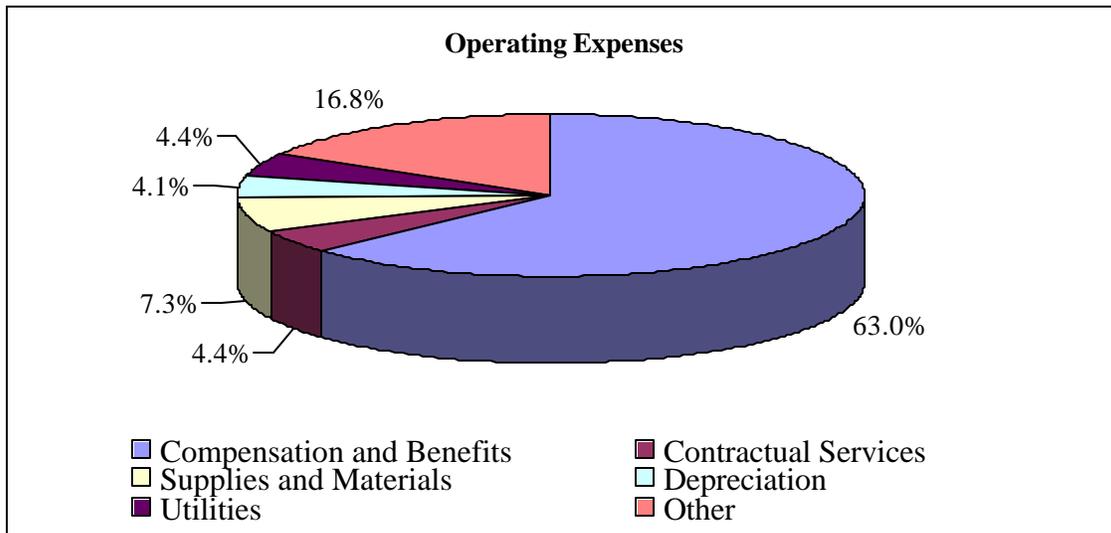


NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

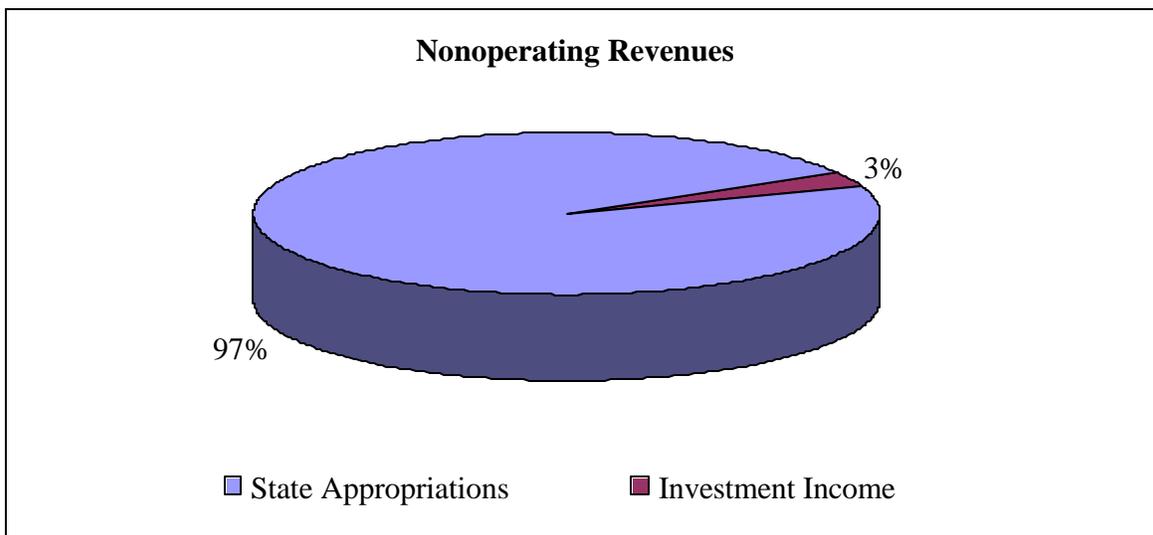
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Operating expenses for the year ended June 30, 2005 amounted to \$71.0 million, compared to \$66.2 million in 2004. Compensation and benefits accounted for \$44.7 million, or 63.0% of the total; contractual services were \$3.1 million; supplies and materials, \$5.2 million; scholarships and fellowships, \$0.9 million; depreciation, \$2.9 million; utilities, \$3.1 million; repairs and maintenance, \$2.0 million; communications, \$1.0 million; food service, \$2.8 million; and other operating expenses, \$5.2 million.



The current year operating loss amounted to \$34.1 million, compared to an operating loss in 2004 of \$32.1 million.

Nonoperating revenues consist primarily of State appropriations and investment income.



NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

(Continued)

The most significant changes from the fiscal year ended June 30, 2004 to the fiscal year ended June 30, 2005 include the \$4.4 million reduction in restricted cash and cash equivalents and the \$4.3 million increase in capital assets net of related debt. The changes primarily reflect the investment of funds reserved for capital projects into the capital assets. A total of \$2.8 million in long-term debt was paid. Tuition and fee income increased by \$1.6 million, or 11.7%, reflecting increased enrollments and a 9.2% increase in tuition rates. Nonoperating revenues increased as well, with a 2.3% increase in State appropriations, a 31.4% increase in investment income. Operating expenses increased by \$4.7 million, or 7.2%. Approximately \$2 million or 42% of the increase was in compensation and benefits. To manage constantly increasing health insurance costs, the NSCS instituted a one-time increase in salaries for employees during the year ending June 30, 2005 in exchange for acceptance of a new health plan that allows for a \$250 deductible. The one-time increase was in addition to the negotiated 2% salary increase. Contractual services, supplies and materials, and repairs and maintenance accounted for an additional \$2.2 million, or 47% of the increased operating expenses, much of which was related to capital facility improvements.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

As of June 30, 2005 the NSCS had recorded \$147.9 million in gross capital assets. During the fiscal year ended June 30, 2005, the investment in buildings and improvements increased by \$3.2 million; the investment in infrastructure decreased by \$0.9 million; furniture, fixtures, and equipment increased by \$0.6 million; library materials increased by \$0.4 million; art increased by \$0.03 million; and construction in progress increased by \$3.5 million. At the end of the fiscal year, the NSCS had \$54.0 million in accumulated depreciation that left \$93.9 million in net capital assets.

At the end of the fiscal year, the NSCS had \$34.6 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$32.5 million and \$1.8 million in accrued compensated absences. No new long-term debt was issued during the year, and the obligation was reduced by \$2.8 million.

Important capital improvements to the NSCS facilities continued through the fiscal year, with funding from State allocations, bonding, student fees, private funds, Federal and State grants, and revenue bond funds. The Edna Work dormitory renovation project at CSC was largely completed during the fiscal year. The Administration Building at Peru is undergoing a substantial renovation, including new heating, ventilating, and air conditioning and a total interior make-over. Plans are underway for a handicapped accessible addition to the Carhart Science Building at WSC. Various tuck-pointing, deferred repair, and fire and life safety upgrades are in progress at all three colleges.

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
(Continued)

**ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE**

The economic downturn slowed during the year ending June 30, 2005. The NSCS sustained only a one-half percent reduction in the anticipated appropriation for the fiscal year, leaving just over a 2% increase over the prior year. Base spending was tightly constrained during the downturn; and the appropriation increase, coupled with a 9.2% increase in tuition, allowed the NSCS to manage negotiated and inflationary spending increases. In spite of the substantial tuition increase, costs of attendance at the colleges remained competitive with neighboring institutions and peers across the country. For fiscal year 2005-06, the tuition increase was held to 2.9%, and the undergraduate per-credit-hour tuition rate remains below \$100, a very competitive level regionally.

Enrollment at the State colleges increased by 1.9% in 2004-2005, and fall enrollments are slightly higher for 2005-2006. The NSCS is engaged in an increased emphasis on enrollment management and marketing. Planning continues with Northeast Community College to provide better service to students in the growing region around South Sioux City. A proposed new center will address a recommendation of the Legislature's LR 174 Committee to attract more students to Nebraska and educate them here, thus increasing the workforce and improving economic development.

The NSCS has completed a number of renovations to classroom and residential 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 few 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 NSCS to continue to provide excellent educational opportunities for the citizens of our State and region.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2005

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 14,163,123
Restricted cash and cash equivalents	3,505,444
Accounts receivable, net of allowance	476,005
State grants and appropriations receivable	363,183
Other receivables	199,627
Inventories	132,082
Loans to students, net	635,550
Prepaid expenses	180,517
Total current assets	19,655,531

**Noncurrent Assets**

Restricted cash and cash equivalents	8,837,239
Restricted investments held by trustee	2,841,532
Investment income receivable	33,518
Loans to students, net	2,149,405
Capital assets, net	93,910,635
Deferred bond issue costs, net	446,459
Total noncurrent assets	108,218,788

Total assets	\$ 127,874,319
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**Liabilities**

**Current Liabilities**

Accounts payable and accrued liabilities	\$ 4,655,763
Accrued compensated absences	1,298,162
Other liabilities	56,857
Deferred revenue	256,746
Interest payable	434,725
Long-term debt - current portion	3,010,000
Deposits held in custody for others	350,400
Total current liabilities	10,062,653

**Noncurrent Liabilities**

Accrued compensated absences	540,179
Unamortized bond premium	115,753
Other noncurrent liabilities	119,178
Long-term debt	29,515,000
Total noncurrent liabilities	30,290,110
Total liabilities	40,352,763

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2005

<b>Net Assets</b>	
Invested in capital assets, net of related debt	61,528,695
Restricted for	
Expendable	
Loans	3,139,833
Debt service	12,171,111
Other	2,085,545
Unrestricted	<u>8,596,372</u>
Total net assets	<u><u>\$ 87,521,556</u></u>

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

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
CHADRON STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2005

ASSETS

UNRESTRICTED ASSETS	
Cash and Cash Equivalents - Unrestricted	\$ 367,986
Cash and Cash Equivalents - Restricted	304,252
Investments	6,791,453
Contributions Receivable, Net of Allowance for Uncollectible Pledges Net of Allowance for Uncollectible Accounts of \$50,420 for 2005	155,370
In-Kind Receivables	6,436
Other Assets	71,049
Property & Equipment, Net Accumulated Depreciation	175,430
TOTAL ASSETS	\$ 7,871,976

LIABILITIES AND NET ASSETS

LIABILITIES	
Wages Payable	\$ 32,232
Scholarships Payable	296,871
Deferred Revenue	71,049
Due to Other Agencies	705,219
Total Liabilities	1,105,371
NET ASSETS	
Unrestricted	(430,714)
Temporarily Restricted	1,012,476
Permanently Restricted	6,184,843
Total Net Assets	6,766,605
TOTAL LIABILITIES AND NET ASSETS	\$ 7,871,976

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
PERU STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2004

ASSETS

UNRESTRICTED ASSETS	
Cash and Cash Equivalents	\$ -
Unconditional Promises to Give, Net of Allowance	12,058
Investments	3,854,809
Notes Receivable, Net of Allowance	196,941
Interest Receivable	7,385
Prepaid Scholarships	80,671
Other Donated Assets	85,502
Total Unrestricted Assets	4,237,366
ENDOWMENT ASSETS	
Cash and Cash Equivalents	660,802
Less Cash Due to Unrestricted Funds	(375,977)
	284,825
Investments	5,514,968
Total Endowment Assets	5,799,793
PROPERTY AND EQUIPMENT, Net of Accumulated Depreciation	68,852
Total Assets	\$ 10,106,011

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts Payable	\$ 20,495
Refundable Deposits	54,429
Gift Annuity	152,724
Accrued Compensation	28,931
Total Liabilities	256,579
NET ASSETS	
Unrestricted Net Assets:	
Operating	2,772,865
Board Designated	829,873
Fixed Assets	68,852
Total Unrestricted Net Assets	3,671,590
Temporarily Restricted Net Assets	454,726
Permanently Restricted Net Assets	5,723,116
Total Net Assets	9,849,432
Total Liabilities and Net Assets	\$ 10,106,011

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
WAYNE STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2005

<b>Assets</b>	
Cash and Cash Equivalents	\$ 264,646
Investments	8,282,673
Accrued Interest	834
Unconditional Promises to Give	341,678
Cash Value Life Insurance	183,118
Assets Held in Perpetual Trust	
Investments	804,512
Assets Restricted for Annuity Contracts	
Investments	562,497
Real Estate	114,000
Real Estate	36,750
Total Assets	\$ 10,590,708
 <b>Liabilities and Net Assets</b>	
Accounts Payable	\$ 28,085
Annuities Payable	373,827
Total Liabilities	401,912
 <b>Net Assets</b>	
Unrestricted:	
Undesignated	1,164,024
Fair Value Endowment Funds Below Cost	-
Designated	175,000
Total Unrestricted Net Assets	1,339,024
Temporarily Restricted	1,305,322
Permanently Restricted	7,544,450
Total Net Assets	10,188,796
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,590,708</b>

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**  
Fiscal Year Ended June 30, 2005

	<b>Total</b>
<b>Operating Revenues</b>	
Tuition and fees, net	\$ 15,351,201
Federal grants and contracts	9,124,534
State grants and contracts	1,220,143
Private grants and contracts	1,297,235
Auxiliary enterprises, net	9,275,782
Other operating revenues	617,643
Total operating revenues	36,886,538
<b>Operating Expenses</b>	
Compensation and benefits	44,720,817
Contractual services	3,139,556
Supplies and materials	5,203,076
Scholarships and fellowships	913,404
Depreciation	2,903,936
Utilities	3,100,074
Repairs and maintenance	2,004,953
Communications	1,003,159
Food service	2,815,428
Other	5,191,121
Total operating expenses	70,995,524
<b>Operating Loss</b>	<b>(34,108,986)</b>
<b>Nonoperating Revenue (Expenses)</b>	
State appropriations	35,224,800
Investment income	988,913
Interest on capital asset-related debt	(1,471,083)
Other nonoperating (expenses)	(33,103)
Net nonoperating revenues	34,709,527
<b>Income Before Other Revenues</b>	600,541
Capital Facilities Fees	913,327
Capital Contributions	98,544
Capital Appropriations and Grants	4,270,078
<b>Increase in Net Assets</b>	5,882,490
<b>Net Assets, Beginning of Year</b>	81,639,066
<b>Net Assets, End of Year</b>	\$ 87,521,556

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
CHADRON STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2005

UNRESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Fall Campaign and Phonathon	\$ 302,806
Management Fees	104,594
Continuation Fees	9,021
Miscellaneous Income	12,932
MBNA Credit Card Income	5,050
Event Income	3,478
Interest Income	1,885
Loss on Disposal of Asset	(819)
Total Revenues, Gains and Other Support	<u>438,947</u>
Net Assets Released From Restrictions	300,780
Total Unrestricted Support and Reclassifications	<u>739,727</u>
Expenses	
Program Services	329,574
Fundraising	175,709
General and Management	198,075
Total Expenses	<u>703,358</u>
Increase in Unrestricted Net Assets	<u>36,369</u>
TEMPORARILY RESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Other Income	26
Interest and Dividend Income	161,538
Realized Gain on Investments	143,237
Unrealized Gain on Investments	210,260
Transfer	(3,768)
Total Temporarily Restricted Revenues, Gains and Other Support	<u>511,293</u>
Net Assets Released From Restrictions	(300,780)
Increase in Temporarily Restricted Net Assets	<u>210,513</u>
PERMANENTLY RESTRICTED NET ASSETS	
Revenues, Gains and Other Support	
Principle Contributions	282,129
Transfer	(17,015)
Increase in Permanently Restricted Net Assets	<u>265,114</u>
INCREASE IN NET ASSETS	511,996
NET ASSETS BEGINNING OF YEAR	6,254,609
PRIOR PERIOD ADJUSTMENT	<u>-</u>
RESTATE NET ASSETS BEGINNING OF YEAR	6,254,609
NET ASSETS END OF YEAR	<u><u>\$ 6,766,605</u></u>

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
PERU STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 113,778	\$ 190,691	\$ 665,800	\$ 970,269
Special Events	14,234	35,790	-	50,024
Interest and Dividends	68,724	2,999	203,055	274,778
Management Service Fee Revenues	105,408	-	-	105,408
Unrealized Gain on Investments	165,443	8,457	570,971	744,871
Miscellaneous Income	11,329	247	15	11,591
Net Assets Released From Restrictions	588,006	(132,845)	(455,161)	-
Total Revenues, Gains, and Other Support	1,066,922	105,339	984,680	2,156,941
<b>EXPENSES AND LOSSES</b>				
Programs:				
Scholarships	283,380	-	-	283,380
Education Departments	70,328	-	-	70,328
Donations	233,176	-	-	233,176
Support Services:				
Management and General:				
Salaries and Wages	264,851	-	-	264,851
Administration	156,936	-	-	156,936
Management Service Fees	105,408	-	-	105,408
Realized Loss on Investments	2,335	-	-	2,335
Depreciation	3,721	-	-	3,721
Bad Debts	-	-	-	-
Miscellaneous Expenses	4,428	-	-	4,428
Fund Raising:				
Promotion and Development	125,818	-	-	125,818
Special Event Expenses	43,121	-	-	43,121
Total Expenses and Losses	1,293,502	-	-	1,293,502
<b>CHANGE IN NET ASSETS</b>	(226,580)	105,339	984,680	863,439
<b>NET ASSETS AS OF BEGINNING OF YEAR</b>	3,898,170	346,902	4,673,006	8,918,078
Correction of Prior Period Error	-	2,485	65,430	67,915
<b>NET ASSETS AS OF BEGINNING OF YEAR</b>	3,898,170	349,387	4,738,436	8,985,993
<b>NET ASSETS AS OF END OF YEAR</b>	<u>\$ 3,671,590</u>	<u>\$ 454,726</u>	<u>\$ 5,723,116</u>	<u>\$ 9,849,432</u>

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
WAYNE STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF ACTIVITIES**  
Fiscal Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support:</b>				
Gift/Contributions Income	\$ 445,105	\$ 357,527	\$ 412,713	\$ 1,215,345
Gift/Contributions Income-Time Only Restriction	-	4,793	-	4,793
Subtotal Gift/Contributions Income	445,105	362,320	412,713	1,220,138
Investment Income	31,574	149,323	13,319	194,216
Gains (Losses) on Investments	61,996	456,659	61,849	580,504
Endowment Fees	48,070	(108,517)	60,447	-
Other Non Gift Income	13,993	171,503	4,558	190,054
Total Revenue and Other Support	600,738	1,031,288	552,886	2,184,912
Net Assets Released From Restrictions	902,461	(875,667)	(26,794)	-
<b>Expenses:</b>				
General and Administrative	151,000	-	-	151,000
Fundraising	280,765	-	-	280,765
Program Expenses	945,395	-	-	945,395
Total Expenses Before Amortization	1,377,160	-	-	1,377,160
Change in Value Split-Interest Agreement	11,303	-	36,592	47,895
Total Expenses	1,388,463	-	36,592	1,425,055
<b>Net Increase (Decrease) Net Assets</b>	114,736	155,621	489,500	759,857
<b>Net Assets, Beginning of Year</b>	1,224,288	1,149,701	7,054,950	9,428,939
<b>Net Assets, End of Year</b>	<u>\$ 1,339,024</u>	<u>\$ 1,305,322</u>	<u>\$ 7,544,450</u>	<u>\$ 10,188,796</u>

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2005

<b>Cash Flows from Operating Activities</b>	
Tuition and fees	\$ 15,172,286
Grants and contracts	11,641,912
Payments to suppliers	(19,836,575)
Payments for utilities	(3,100,074)
Payments to employees	(44,524,884)
Loans issued to students	(726,820)
Collections of loans to students	639,083
Sales and services of auxiliary enterprises	9,239,691
Other payments	(2,190)
	<hr/>
Net cash used by operating activities	(31,497,571)
<b>Cash Flows from Noncapital Financing Activities</b>	
State appropriations	36,398,081
Grants and contracts	138,966
Other receipts	15,113
	<hr/>
Net cash provided by noncapital financing activities	36,552,160
<b>Cash Flows from Capital and Related Financing Activities</b>	
Receipt from State for capital purchases	4,634,942
Proceeds from sale of capital assets	1,126
Purchase of capital assets	(7,634,284)
Principal paid on capital debt	(2,800,000)
Interest paid on capital debt	(1,525,592)
Capital facilities fees	913,327
Transfers out	(321,552)
Other payments	(34,903)
Capital contributions	84,660
	<hr/>
Net cash used by capital and related financing activities	(6,682,276)
<b>Cash Flows from Investing Activities</b>	
Purchase/sale of investments	(1,502,212)
Investment income	981,217
	<hr/>
Net cash used by investing activities	(520,995)
<b>Increase in Cash and Cash Equivalents</b>	
	<hr/>
	(2,148,682)
<b>Cash and Cash Equivalents, Beginning of Year</b>	
	<hr/>
	28,654,488
<b>Cash and Cash Equivalents, End of Year</b>	
	<hr/>
	\$ 26,505,806
	<hr/> <hr/>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2005

**Reconciliation of Cash and Cash Equivalents  
to the Statement of Net Assets**

Cash and cash equivalents	\$ 14,163,123
Restricted cash and cash equivalents - current	3,505,444
Restricted cash and cash equivalents - noncurrent	8,837,239
	8,837,239
Total cash and cash equivalents	\$ 26,505,806

**Reconciliation of Net Operating Revenues (Expenses)  
to Net Cash Used by Operating Activities**

Operating loss	\$ (34,108,986)
Depreciation expense	2,903,936
Changes in operating assets and liabilities	
Receivables, net	(106,756)
Inventories	8,568
Federal and state grant receivable	(45,439)
Accounts payable and accrued liabilities	(39,008)
Accrued compensated absences	84,491
Other assets and liabilities	(194,377)
	(194,377)

**Net Cash Used by Operating Activities** \$ (31,497,571)

**Supplemental Cash Flows Information**

Accounts payable incurred for capital asset purchases	\$ 326,819
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The accompanying notes are an integral part of the financial statements.

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
CHADRON STATE FOUNDATION  
(A COMPONENT UNIT OF THE STATE COLLEGE SYSTEM)  
**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 2005

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in Net Assets	\$ 511,996
Adjustments to Reconcile Increase in Net Assets	
To Net Cash Provided By Operating Activities	
Depreciation	2,161
Unrealized Gain on Investments	(210,260)
Realized Gain on Sale of Investments	(143,237)
Management Fees	(104,594)
Loss on Sale of Asset	819
(Increase) Decrease In:	
Contributions Receivable	5,485
In-Kind Receivables	(6,436)
Other Assets	(2,215)
Increase (Decrease) In:	
Wages Payable	(6,866)
Scholarships Payable	27,668
Deferred Revenue	(2,212)
Due to Other Agencies	111,321
Net Cash Provided By Operating Activities	<u>183,630</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds From Sale of Investments	-
Purchase of Investments	<u>(693,793)</u>
Net Cash Used By Investing Activities	(693,793)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Endowment Fund Support	282,129
Transfer From Other Agency	<u>(17,015)</u>
Net Cash Provided By Investing Activities	265,114
Net Increase (Decrease) in Cash and Equivalents	(245,049)
CASH AND EQUIVALENTS BEGINNING OF YEAR	<u>917,287</u>
CASH AND EQUIVALENTS END OF YEAR	<u><u>\$ 672,238</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash and Equivalents - Unrestricted	\$ 367,986
Cash and Equivalents - Restricted	<u>304,252</u>
Total Cash and Equivalents	<u><u>\$ 672,238</u></u>

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
PERU STATE FOUNDATION  
(A COMPONENT UNIT OF THE STATE COLLEGE SYSTEM)  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 863,439
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	3,721
Unrealized (Gain) Loss on Investments	(744,871)
Realized Loss (Gain) on Sale of Investments	2,335
Contributed Investments	(1,080,689)
Donated Assets	(45,500)
Withdrawals from Investments	1,096,020
Changes in Operating Assets and Liabilities:	
Decrease (Increase) in Unconditional Promises to Give	50,299
Decrease in Notes Receivable	23,529
Decrease in Interest Receivable	790
Increase in Prepaid Expenses	(12,756)
(Decrease) Increased in Accounts Payable	(10,810)
Increase in Accrued Compensation	2,152
Increase in Refundable Deposits	7,269
(Decrease) Increase in Gift Annuity Payable	(18,999)
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	135,929
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments	(264,132)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<hr/> <u>(264,132)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(128,203)
CASH AND CASH EQUIVALENTS - BEGINNING	<hr/> 413,028
CASH AND CASH EQUIVALENTS - ENDING	<hr/> <u>\$ 284,825</u>
SUPPLEMENTAL CASH INFORMATION	
Non-Endowed Cash and Cash Equivalents	\$ (375,977)
Endowed Cash and Cash Equivalents	<hr/> 660,802
TOTAL CASH AND CASH EQUIVALENTS	<hr/> <u>\$ 284,825</u>
SUPPLEMENTAL NON-CASH INFORMATION	
Correction of Error - Prior Year Prepaid Expenses	\$ 67,915
Current Year Prepaid Expenses	<hr/> (80,671)
Increase in Prepaid Expenses	<hr/> <u>\$ (12,756)</u>

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
WAYNE STATE FOUNDATION  
(A COMPONENT UNIT OF THE STATE COLLEGE SYSTEM)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2005

**Cash Flows From Operating Activities:**

Change in Net Assets	\$ 759,857
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable	(287)
Unconditional Promises to Give	86,483
(Increase) Decrease in Operating Non-Cash Liabilities:	
Accounts Payable	16,723
Depreciation	3,000
Amortization of Annuity Obligations	47,894
Loss (Gain) on Investments & (Reinvested Income)	(580,503)
Unrealized Increase in Cash Value Life Insurance	(10,643)
Non Cash Contributions	-
Contributions Restricted for Permanent Investment	(386,808)
Interest and Dividends Restricted for Reinvestment	(60,447)
	(124,731)
Net Cash Provided by Operating Activities	(124,731)

**Cash Flows From Investing Activities:**

Repayments of Note Receivable	-
Net (Purchase) Proceeds of Investments	(366,764)
Net Cash Used by Investing Activities	(366,764)

**Cash Flows From Financing Activities:**

Proceeds from Annuity Contracts	-
Payments on Annuity Contracts	(60,812)
Contributions Restricted for Permanent Investment	386,808
Investment Income Restricted for Reinvestment	60,447
Net Cash Provided by Financing Activities	386,443

**Net Increase in Cash and Cash Equivalents** (105,052)

**Cash and Cash Equivalents, Beginning of Year** 369,698

**Cash and Cash Equivalents, End of Year** \$ 264,646

**Non Cash Transactions**

Contribution of Remainder Interest in Annuities	\$ -
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The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2005

**1. Summary of Significant Accounting Policies**

***Organization***

The Nebraska State College System (NSCS) is a governmental institution established under and governed by the laws of the State of Nebraska. The NSCS operates under the jurisdiction of the Board of Trustees of the Nebraska State Colleges. The NSCS includes Wayne State College (WSC), Chadron State College (CSC), Peru State College (PSC), the System Office, and the Nebraska State College Facilities Corporation (a blended component unit). The NSCS 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 NSCS. The major accounting principles and practices followed by the NSCS 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 NSCS has considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on the NSCS, or the significance of their relationship with the NSCS is such that exclusion would be misleading or incomplete. Governmental Accounting Standards Board (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 NSCS 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 NSCS.

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

***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 NSCS's reporting entity because of the significance of its operational or financial relationships with the NSCS. This component unit is an entity that is legally separate from the NSCS, but is so

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

intertwined with the NSCS that it is, in substance, the same as the NSCS. 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 NSCS 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 colleges 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 that the Foundations hold and invest is restricted to the activities of their respective colleges by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, their respective colleges, the Foundations are considered component units of the NSCS and are discretely presented on separate pages in this report.

During the year ended June 30, 2005 Chadron State and Wayne State Foundations distributed \$705,219 and \$847,114, respectively to their colleges; and during the year ended December 31, 2004 Peru State Foundation distributed \$620,005 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***

NSCS 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 Colleges and Universities*. The NSCS follows the "business-type" activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

- 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 NSCS 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 NSCS has elected not to apply FASB pronouncements issued after the applicable date.

For the fiscal year ended June 30, 2005 the State College Board of Trustees implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk, and concentration of credit risk. This pronouncement requires additional disclosures to be presented in the notes but has no impact on the net assets of the NSCS.

The financial statements of the NSCS 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 NSCS 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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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 positions 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.

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 NSCS 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 NSCS 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 NSCS. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSCS and as such are not included in the financial statements for the year ended June 30, 2005.

The NSCS considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 cash equivalents consisted primarily of money market funds.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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***

NSCS 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, 2005, 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.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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.

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, 2005, the Foundation had market risk from concentration of investments in cash equivalents and investments with common fund of \$8,589,475, which represents 90% of cash and investments.

***Accounts Receivable***

The NSCS'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 \$286,279 at June 30, 2005.

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WSC	\$124,979
CSC	\$ 90,000
PSC	\$ 71,300

***Deferred Bond Issue Costs***

The NSCS's bond issue costs incurred on the revenue bond and Facilities Corporation 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, 2005 was \$446,459.

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

WSC	\$162,480
CSC	\$187,646
PSC	\$ 30,579
System Office	\$ 65,754

***Inventories***

The NSCS'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 NSCS 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 \$374,500 at June 30, 2005.

WSC	\$154,500
CSC	\$120,000
PSC	\$100,000

***Capital Assets***

The NSCS'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 NSCS:

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

***Compensated Absences***

The NSCS'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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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 NSCS. 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.

***Deferred Revenue***

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

***Classification of Revenues***

The NSCS 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 NSCS, 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 NSCS's financial statements. To the extent revenues from such programs are used to satisfy

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

tuition and fees and other student charges, the NSCS has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended June 30, 2005 were \$6,786,878 and \$2,506,064 respectively.

	<u>Tuition and Fees</u>	<u>Auxiliary Enterprises</u>
WSC	\$ 3,178,521	\$ 1,464,462
CSC	\$ 1,754,713	\$ 371,281
PSC	\$ 1,853,644	\$ 670,321

***Recent Statements Issued by the Government Accounting Standards Board***

The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the NSCS to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of capital assets. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB also issued Statement No. 47, *Accounting for Termination Benefits*. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this statement is effective for financial statements for periods beginning after June 15, 2005. This statement establishes accounting standards for termination benefits. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 47 may have on the financial statements.

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

*Deposits*

All of the NSCS's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the NSCS's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the 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 NSCS's deposits with the Treasurer are pooled with the funds of other State agencies in the State of Nebraska Operating Investment Pool (OIP), and internal investment pool, and then, in accordance with statutory limitations, deposited in banks or invested as the Treasurer may determine. Interest on funds held by the State Treasurer is periodically distributed to the participating agencies. These funds are considered to be cash and cash equivalents which are available for expenditures as needed. The investment policy of the OIP includes the objectives of:

- **Safety** - Investments will be undertaken in a manner that seeks to ensure preservation of capital on a total return basis.
- **Liquidity** - The OIP will remain sufficiently liquid to meet the daily cash flow needs of the State and other entities participating in the OIP.
- **Return on Investment** - The objective is to attain a competitive income rate of return given the risk constraints and cash flow characteristics of the portfolio.

The investment strategy is to minimize short-term investments while maintaining sufficient funds to provide for required cash outflows. The investments of the OIP at June 30, 2005 include Commercial Paper, U.S. Government Securities, Federal Agency Debt Instruments, Corporate Bonds, Money Market Funds, and Bank Deposits. Additional information on the OIP can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the Fiscal year ended June 30, 2005.

The NSCS has no policy regarding custodial credit risk for deposits.

At June 30, 2005, the carrying value of the NSCS's bank deposits was \$6,287,871 and the bank balance was \$6,288,761. The bank balance at June 30, 2005 was entirely covered by federal depository insurance and collateral held by the pledging institution's agent in other than the NSCS's name. State law requires collateralization of all deposits with federal depository

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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.

***Investments***

At June 30, 2005 the NSCS's investment balances were as follows:

	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>
		<b>1-5</b>
Investment Type:		
Debt Securities:		
Federal Home Loan Bank Securities	\$ 1,860,412	\$ 1,860,412
Federal National Mortgage Association Securities	745,596	745,596
Federal Farm Credit Bank Securities	64,960	64,960
	2,670,968	\$ 2,670,968
Other Investments:		
Equity Securities	170,564	
	\$ 2,841,532	

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

*Credit Risk.* The NSCS 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 NSCS has no policy on credit risk.

*Concentration of Credit Risk.* The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 65% are Federal Home Loan Bank Securities; 26% are Federal National Mortgage Association Securities; and 6% are Equity Securities.

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

*Custodial Risk.* For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the NSCS will be able to recover the value of its investments that are in the possession of an outside party. All U.S. agency securities are held by the investment's counterparty, not in the name of NSCS.

***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		
Cash	\$	4,850
Deposits:		
Bank Deposits		6,287,871
Short Term Investment Pool		20,213,085
Investments		2,841,532
Total as of June 30, 2005	\$	<u>29,347,338</u>
Included in the Statement of Net Assets		
Cash and Cash Equivalents	\$	14,163,123
Restricted Cash and Cash Equivalents		12,342,683
Investments held by Trustee		2,841,532
	\$	<u>29,347,338</u>

The Chadron State Foundation's investments are stated at fair value and are shown below as of June 30, 2005:

	<b>Cost</b>	<b>Market Value</b>	<b>Unrealized Appreciation</b>
MGAM Core Equity, LLC	\$ 1,845,810	\$ 2,361,281	\$ 515,471
MGAM International Equity, LLC	399,550	476,795	77,245
MGAM Small Mid Cap Equity, LLC	817,500	1,220,440	402,940
MGAM Cash Reserve, LLC	329,445	337,748	8,303
MGAM Core Income, LLC	1,243,765	1,312,085	68,320
MGAM Total Return, LLC	940,504	1,081,622	141,118
Totals	5,576,574	6,789,971	1,213,397
Investment in Chadron			
Communications	1,482	1,482	-
Total Investments	\$ 5,578,056	\$ 6,791,453	\$ 1,213,397

NEBRASKA STATE COLLEGE SYSTEM  
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**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, 2004.

	<u>Non-endowed</u>	<u>Endowed</u>	<u>Total</u>
Equity Funds	\$ 2,417,861	\$ 3,459,166	\$ 5,877,027
Fixed Income Funds	1,436,948	2,055,802	3,492,750
Total	<u>\$ 3,854,809</u>	<u>\$ 5,514,968</u>	<u>\$ 9,369,777</u>

The Wayne State Foundation's investments are reported at their fair value and are summarized as follows for the year ended June 30, 2005.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Certificates of Deposits	\$ 42,267	\$ -	\$ 103,713	\$ 145,980
Common Fund				
Equity Fund	571,486	-	4,626,312	5,197,798
Common Fund				
Bond Fund	311,056	-	2,519,648	2,830,704
Subtotal Common Fund	882,542	-	7,145,960	8,028,502
Other Mutual Funds	-	42,094	66,097	108,191
Totals	<u>\$ 924,809</u>	<u>\$ 42,094</u>	<u>\$ 7,315,770</u>	<u>\$ 8,282,673</u>

**3. Capital Assets**

The NSCS capital assets activity for the year ended June 30, 2005 was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 615,280	\$ -	\$ -	\$ 64,750	\$ 680,030
Building and Improvements	104,165,633	1,647,442	-	1,585,410	107,398,485
Infrastructure	16,452,345	175,012	-	(1,111,907)	15,515,450
Furniture, Fixtures, and Equipment	3,488,640	774,258	191,903	-	4,070,995
Library Materials	8,145,551	448,033	46,089	-	8,547,495
Art	168,249	34,324	-	-	202,573
Construction in Progress	7,978,555	6,044,341	-	(2,497,677)	11,525,219
	<u>\$ 141,014,253</u>	<u>\$ 9,123,410</u>	<u>\$ 237,992</u>	<u>\$ (1,959,424)</u>	<u>\$ 147,940,247</u>

NEBRASKA STATE COLLEGE SYSTEM  
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**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	37,523,039	1,538,616	-	-	39,061,655
Infrastructure	4,526,084	452,239	-	-	4,978,323
Furniture, Fixtures, and Equipment	2,309,208	440,143	(188,041)	-	2,561,310
Library Materials	7,001,475	472,938	(46,089)	-	7,428,324
<b>Total Depreciation</b>	<b>51,359,806</b>	<b>2,903,936</b>	<b>(234,130)</b>	<b>-</b>	<b>54,029,612</b>
<b>Net Capital Assets</b>	<b>\$ 89,654,447</b>	<b>\$ 6,219,474</b>	<b>\$ (3,862)</b>	<b>\$ (1,959,424)</b>	<b>\$ 93,910,635</b>

<u>Net Assets by Facility</u>	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>NSCS Office</u>	<u>Balance</u>
Land	\$ 510,979	\$ 49,395	\$ 119,656	\$ -	\$ 680,030
Building and Improvements	28,714,718	20,895,642	18,726,471	-	68,336,831
Infrastructure	6,870,603	1,490,394	2,176,130	-	10,537,127
Furniture, Fixtures, and Equipment	617,761	550,435	339,680	1,810	1,509,686
Library Materials	394,306	566,567	158,297	-	1,119,170
Art	123,249	45,000	34,324	-	202,573
Construction in Progress	4,492,200	4,882,011	2,151,007	-	11,525,218
	<b>\$ 41,723,816</b>	<b>\$ 28,479,444</b>	<b>\$ 23,705,565</b>	<b>\$ 1,810</b>	<b>\$ 93,910,635</b>

**4. Long-Term Liabilities**

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue and Refunding Bonds	\$ 20,850,000	\$ -	\$ 610,000	\$ 20,240,000	\$ 730,000
Facilities Corporation Bonds	14,475,000	-	2,190,000	12,285,000	2,280,000
<b>Total Long-Term Debt</b>	<b>35,325,000</b>	<b>-</b>	<b>2,800,000</b>	<b>32,525,000</b>	<b>3,010,000</b>

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Other Noncurrent Liabilities:					
Accrued Compensated					
Absences	1,753,850	84,491	-	1,838,341	1,298,162
Unamortized Bond Premium	154,338	-	38,585	115,753	-
Other Liabilities	171,301	-	25,837	145,464	26,286
Total Other Noncurrent Liabilities	<u>2,079,489</u>	<u>84,491</u>	<u>64,422</u>	<u>2,099,558</u>	<u>1,324,448</u>
Total Noncurrent Liabilities	<u>\$ 37,404,489</u>	<u>\$ 84,491</u>	<u>\$ 2,864,422</u>	<u>\$ 34,624,558</u>	<u>\$ 4,334,448</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  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**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, 2005 are as follows:

<b>Wayne State College Revenue and Refunding Bonds</b>			
<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30</b>			
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	360,000	369,219	729,219
2011-2015	2,015,000	1,631,593	3,646,593
2016-2020	2,295,000	1,167,986	3,462,986
2021-2025	2,115,000	656,533	2,771,533
2026-2028	1,535,000	117,625	1,652,625
Total	\$ 9,670,000	\$ 5,521,292	\$ 15,191,292

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

<b>Chadron State College Revenue and Refunding Bonds</b>			
<b>Year Ending</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	340,000	262,816	602,816
2011-2015	1,200,000	1,161,712	2,361,712
2016-2020	1,205,000	930,158	2,135,158
2021-2025	1,530,000	590,387	2,120,387
2026-2029	1,540,000	159,000	1,700,000
Total	\$ 7,065,000	\$ 4,255,956	\$ 11,320,956

<b>Peru State College Revenue and Refunding Bonds</b>			
<b>Year Ending</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	110,000	141,383	251,383
2011-2015	605,000	640,637	1,245,637
2016-2020	745,000	498,726	1,243,726
2021-2025	950,000	295,420	1,245,420
2026-2028	690,000	-	690,000
Total	\$ 3,505,000	\$ 2,226,973	\$ 5,731,973

<b>Facilities Corporation Bonds</b>			
<b>Year Ending</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	1,440,000	36,360	1,476,360
Total	\$ 12,285,000	\$ 1,614,479	\$ 13,899,479

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

**Nebraska State College System Bond Summary**

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>June 30</b>			
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	2,250,000	809,778	3,059,778
2011-2015	3,820,000	3,433,942	7,253,942
2016-2020	4,245,000	2,596,870	6,841,870
2021-2025	4,595,000	1,542,340	6,137,340
2026-2029	3,765,000		
Total	<u>\$ 32,525,000</u>	<u>\$ 13,618,700</u>	<u>\$ 46,143,700</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, 2005 the NSCS 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 NSCS to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future minimum lease payments at PSC as of June 30, 2005 were:

2006	\$ 34,176
2007	34,116
2008	34,056
2009	33,996
2010	33,936
2011	1,721
	<u>\$ 172,001</u>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**6. Pension Plan**

The NSCS 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 NSCS for 2005, expressed as a percentage of covered payroll, were 6% and 7.5%. Contributions actually made for the fiscal year ending June 30, 2005 by plan members and the NSCS aggregated were \$1,811,851 and \$2,270,462, 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 NSCS also sponsors a supplemental retirement annuity plan. Plan members contributed \$852,862 in 2005. The NSCS does not contribute to this supplemental plan.

**7. Risk Management**

The NSCS 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 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 NSCS employees.

**8. Commitments and Contingencies**

***Construction Contracts***

The Board of Trustees has authorized and approved construction commitments of \$1,446,803 as of June 30, 2005. These projects will be funded through State monies, Foundation gifts, and capital improvement fees.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**8. Commitments and Contingencies** (Concluded)

WSC	\$	442,563
CSC		964,534
PSC		39,706

***Government Grants***

The NSCS 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.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF NET ASSETS**  
June 30, 2005

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 3,950,840	\$ 1,945,555	\$ 8,261,465	\$ 5,263	\$ 14,163,123
Restricted cash and cash equivalents	839,287	558,899	439,576	1,667,682	3,505,444
Accounts receivable, net of allowance	213,850	94,541	167,614	-	476,005
State grants and appropriations receivable	8,271	89,838	183,380	81,694	363,183
Other receivables	135,405	31,086	33,136	-	199,627
Inventories	39,439	34,751	57,892	-	132,082
Loans to students, net	199,392	78,012	358,146	-	635,550
Prepaid expenses	110,492	25,178	44,627	220	180,517
Total current assets	<u>5,496,976</u>	<u>2,857,860</u>	<u>9,545,836</u>	<u>1,754,859</u>	<u>19,655,531</u>
<b>Noncurrent Assets</b>					
Restricted cash and cash equivalents	2,614,265	1,177,274	4,040,621	1,005,079	8,837,239
Restricted investments held by trustee	321,394	242,363	616,444	1,661,331	2,841,532
Investment income receivable	-	10,374	-	23,144	33,518
Loans to students, net	988,523	256,756	904,126	-	2,149,405
Capital assets, net	28,479,444	23,705,565	41,723,816	1,810	93,910,635
Deferred bond issue costs, net	187,646	30,579	162,480	65,754	446,459
Total noncurrent assets	<u>32,591,272</u>	<u>25,422,911</u>	<u>47,447,487</u>	<u>2,757,118</u>	<u>108,218,788</u>
Total assets	<u>\$ 38,088,248</u>	<u>\$ 28,280,771</u>	<u>\$ 56,993,323</u>	<u>\$ 4,511,977</u>	<u>\$ 127,874,319</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 1,733,866	\$ 638,779	\$ 2,273,359	\$ 9,759	\$ 4,655,763
Accrued compensated absences	368,456	226,891	623,619	79,196	1,298,162
Other liabilities	791	25,495	30,571	-	56,857
Deferred revenue	105,087	133,943	17,716	-	256,746
Interest payable	152,088	77,386	205,251	-	434,725
Long-term debt - current portion	305,000	100,000	325,000	2,280,000	3,010,000
Deposits held in custody for others	94,204	82,659	173,537	-	350,400
Total current liabilities	<u>2,759,492</u>	<u>1,285,153</u>	<u>3,649,053</u>	<u>2,368,955</u>	<u>10,062,653</u>
<b>Noncurrent Liabilities</b>					
Accrued compensated absences	176,704	109,038	204,055	50,382	540,179
Unamortized bond premium	-	-	-	115,753	115,753
Other noncurrent liabilities	-	119,178	-	-	119,178
Long-term debt	6,760,000	3,405,000	9,345,000	10,005,000	29,515,000
Total noncurrent liabilities	<u>6,936,704</u>	<u>3,633,216</u>	<u>9,549,055</u>	<u>10,171,135</u>	<u>30,290,110</u>
Total liabilities	<u>9,696,196</u>	<u>4,918,369</u>	<u>13,198,108</u>	<u>12,540,090</u>	<u>40,352,763</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	21,414,444	20,231,144	32,216,296	(12,333,189)	61,528,695
Restricted for					
Expendable					
Loans	1,324,598	446,084	1,369,151	-	3,139,833
Debt service	2,775,767	1,519,812	4,414,518	3,461,014	12,171,111
Other	763,507	208,415	218,151	895,472	2,085,545
Unrestricted	2,113,736	956,947	5,577,099	(51,410)	8,596,372
Total net assets	<u>\$ 28,392,052</u>	<u>\$ 23,362,402</u>	<u>\$ 43,795,215</u>	<u>\$ (8,028,113)</u>	<u>\$ 87,521,556</u>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
June 30, 2005

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
<b>Operating Revenues</b>					
Tuition and fees, net	\$ 4,110,378	\$ 2,817,206	\$ 8,423,617	\$ -	\$ 15,351,201
Federal grants and contracts	3,580,498	1,576,048	3,967,988	-	9,124,534
State grants and contracts	686,905	242,269	290,969	-	1,220,143
Private grants and contracts	419,211	558,291	319,733	-	1,297,235
Auxiliary enterprises, net	3,524,559	1,355,098	4,396,125	-	9,275,782
Other operating revenues	25,928	129,451	462,264	-	617,643
	<u>12,347,479</u>	<u>6,678,363</u>	<u>17,860,696</u>	<u>-</u>	<u>36,886,538</u>
<b>Operating Expenses</b>					
Compensation and benefits	15,359,911	8,075,632	20,581,323	703,951	44,720,817
Contractual services	728,463	494,369	1,826,100	90,624	3,139,556
Supplies and materials	2,859,564	766,480	1,577,032	-	5,203,076
Scholarships and fellowships	408,366	59,807	445,231	-	913,404
Depreciation	1,291,649	736,080	875,512	695	2,903,936
Utilities	965,524	608,519	1,526,031	-	3,100,074
Repairs and maintenance	720,800	266,561	1,017,592	-	2,004,953
Communications	279,596	229,407	494,156	-	1,003,159
Food service	869,909	706,447	1,239,072	-	2,815,428
Other	1,192,558	1,566,206	2,241,677	190,680	5,191,121
	<u>24,676,340</u>	<u>13,509,508</u>	<u>31,823,726</u>	<u>985,950</u>	<u>70,995,524</u>
<b>Operating Loss</b>	<u>(12,328,861)</u>	<u>(6,831,145)</u>	<u>(13,963,030)</u>	<u>(985,950)</u>	<u>(34,108,986)</u>
<b>Nonoperating Revenue (Expenses)</b>					
State appropriations	\$ 12,501,692	\$ 6,840,487	\$ 14,924,673	\$ 957,948	35,224,800
Investment income	279,946	127,794	449,952	131,221	988,913
Interest on capital asset-related debt	(304,175)	(154,773)	(417,660)	(594,475)	(1,471,083)
Other nonoperating revenues (expenses)	14,714	15,037	(22,440)	(40,414)	(33,103)
	<u>12,492,177</u>	<u>6,828,545</u>	<u>14,934,525</u>	<u>454,280</u>	<u>34,709,527</u>
<b>Income (Loss) Before Other Revenues, and Transfers</b>	163,316	(2,600)	971,495	(531,670)	600,541
Capital facilities fees	-	-	-	913,327	913,327
Capital contributions	1,500	22,115	74,929	-	98,544
Operating transfers in (Out)	199,381	299,456	90,570	(589,407)	-
Capital appropriations and grants	57,555	1,409,573	393,590	2,409,360	4,270,078
<b>Increase in Net Assets</b>	421,752	1,728,544	1,530,584	2,201,610	5,882,490
<b>Net Assets, Beginning of Year</b>	<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>
<b>Net Assets, End of Year</b>	<u>\$ 28,392,052</u>	<u>\$ 23,362,402</u>	<u>\$ 43,795,215</u>	<u>\$ (8,028,113)</u>	<u>\$ 87,521,556</u>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF CASH FLOWS**  
June 30, 2005

	Chadron	Peru	Wayne	System Office & Minority	Total
<b>Cash Flows from Operating Activities</b>					
Tuition and fees	\$ 4,093,466	\$ 2,710,969	\$ 8,367,851	\$ -	\$ 15,172,286
Grants and contracts	4,686,615	2,376,607	4,578,690	-	11,641,912
Payments to suppliers	(7,049,174)	(4,157,124)	(8,446,379)	(183,898)	(19,836,575)
Payments for utilities	(965,524)	(608,519)	(1,526,031)	-	(3,100,074)
Payments to employees	(15,297,430)	(7,929,821)	(20,610,748)	(686,885)	(44,524,884)
Loans issued to students	(321,668)	(72,426)	(332,726)	-	(726,820)
Collections of loans to students	210,194	140,020	288,869	-	639,083
Sales and services of auxiliary enterprises	3,516,052	1,349,691	4,373,948	-	9,239,691
Other receipts (payments)	24,200	69,644	(5,410)	(90,624)	(2,190)
Net cash used in operating activities	<u>(11,103,269)</u>	<u>(6,120,959)</u>	<u>(13,311,936)</u>	<u>(961,407)</u>	<u>(31,497,571)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
State appropriations	12,578,782	6,995,701	15,866,188	957,410	36,398,081
Grants and contracts	51,508	44,285	43,173	-	138,966
Other receipts		15,035		78	15,113
Net cash provided by noncapital financing activities	<u>12,630,290</u>	<u>7,055,021</u>	<u>15,909,361</u>	<u>957,488</u>	<u>36,552,160</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Receipt from State for capital purchases	286,364	1,527,520	411,698	2,409,360	4,634,942
Proceeds from sale of capital assets	1,126				1,126
Purchase of capital assets	(3,525,598)	(2,137,424)	(1,971,262)		(7,634,284)
Principal paid on capital debt	(295,000)	(100,000)	(215,000)	(2,190,000)	(2,800,000)
Interest paid on capital debt	(311,713)	(178,442)	(402,377)	(633,060)	(1,525,592)
Capital facilities fees				913,327	913,327
Transfers out		181,510	86,345	(589,407)	(321,552)
Other payments	(14,714)			(20,189)	(34,903)
Capital contributions	1,500	22,115	61,045	-	84,660
Net cash used by capital and related financing activities	<u>(3,858,035)</u>	<u>(684,721)</u>	<u>(2,029,551)</u>	<u>(109,969)</u>	<u>(6,682,276)</u>
<b>Cash Flows from Investing Activities</b>					
Purchase/sale of investments	-	1,582	4,025	(1,507,819)	(1,502,212)
Investment income	294,357	127,796	449,952	109,112	981,217
Net cash provided (used) by investing activities	<u>294,357</u>	<u>129,378</u>	<u>453,977</u>	<u>(1,398,707)</u>	<u>(520,995)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(2,036,657)</u>	<u>378,719</u>	<u>1,021,851</u>	<u>(1,512,595)</u>	<u>(2,148,682)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<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>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 7,404,392</u>	<u>\$ 3,681,729</u>	<u>\$ 12,741,661</u>	<u>\$ 2,678,024</u>	<u>\$ 26,505,806</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>					
Cash and cash equivalents	\$ 3,950,840	\$ 1,945,555	\$ 8,261,465	\$ 5,263	\$ 14,163,123
Restricted cash and cash equivalents - current	839,287	558,899	439,576	1,667,682	3,505,444
Restricted cash and cash equivalents - noncurrent	2,614,265	1,177,274	4,040,621	1,005,079	8,837,239
Total cash and cash equivalents	<u>\$ 7,404,392</u>	<u>\$ 3,681,728</u>	<u>\$ 12,741,662</u>	<u>\$ 2,678,024</u>	<u>\$ 26,505,806</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities</b>					
Operating loss	\$(12,328,861)	\$ (6,831,145)	\$(13,963,030)	\$ (985,950)	\$(34,108,986)
Depreciation expense	1,291,649	736,080	875,512	695	2,903,936
Changes in operating assets and liabilities:					
Receivables, net	(109,886)	6,160	(3,030)	-	(106,756)
Inventories	9,729	4,686	(5,847)	-	8,568
Federal and state grant receivable	-	-	(45,439)	-	(45,439)
Accounts payable and accrued liabilities	(5,549)	(40,241)	-	6,782	(39,008)
Accrued compensated absences	59,731	37,119	(29,425)	17,066	84,491
Other assets and liabilities	(20,082)	(33,618)	(140,677)	-	(194,377)
<b>Net Cash Used by Operating Activities</b>	<u>\$(11,103,269)</u>	<u>\$ (6,120,959)</u>	<u>\$(13,311,936)</u>	<u>\$ (961,407)</u>	<u>\$(31,497,571)</u>
<b>Supplemental Cash Flows Information</b>					
Accounts payable incurred for capital asset purchases	\$ 326,819	\$ -		\$ -	\$ 326,819

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Expenditures
<i>U.S. Department of Education:</i>			
Student Financial Aid:			
Supplemental Educational Opportunity Grant		84.007	\$ 169,704
Federal Family Education Loan		84.032	\$ 13,479,833
Federal Work Study		84.033	\$ 505,252
Perkins Loan		84.038	\$ 3,813,040
Pell Grant		84.063	\$ 6,470,999
Federal Direct Student Loans (Direct Loan)		84.268	<u>\$ 4,069,964</u>
Total Student Financial Aid			\$ 28,508,792
Higher Education Institutional Aid		84.031	\$ 8,082
Trio Student Support Services		84.042	\$ 774,826
Migrant Education - State Grant Program		84.011	\$ 3,510
Special Education Grants to States	NE Dept. of Education	84.027	\$ 2,764
Leveraging Educational Assistance Partnership Grants	CCPE	84.069	\$ 43,723
Bilingual Education Professional Development		84.195	\$ 19,318
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	\$ 33,633
Mathematics & Science Partnerships	NE Dept. of Education	84.366	\$ 58,270
Improving Teacher Quality State Grants	NE Dept. of Education CCPE	84.367	<u>\$ 64,498</u>
<i>Total U.S. Dept. of Education</i>			\$ 29,517,416

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Expenditures</b>
<i>U.S. Dept. of Housing and Urban Development</i> Community Development Block Grants	NE Dept. of Economic Development	14.228	\$ <u>12,500</u>
<i>U.S. Dept. of Interior:</i> U.S. Geological Survey Research and Data Acquisition	UNO (GENO Only)	15.808	\$ <u>37,624</u>
<i>U.S. Dept. of Justice:</i> Grants to Reduce Violent Crimes Against Women on Campus		16.525	\$ <u>82,749</u>
<i>U.S. Dept. of State</i> Cooperative Grants		19.420	\$ <u>5,695</u>
<i>U.S. Dept. of Transportation:</i> Highway Planning and Construction	NE Dept. of Roads	20.205	\$ <u>204,316</u>
<i>National Foundation on Arts &amp; Humanities:</i> Promotion of the Arts Challenge America Grants	SD Humanities Council	45.129	\$ <u>600</u>
<i>National Science Foundation:</i> Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	\$ 60,361
Education and Human Resources	Nebraska Epscor NE Academy of Science	47.076	\$ <u>3,730</u>
<i>Total National Science Foundation</i>			\$ 64,091
<i>U.S. Small Business Administration:</i> Small Business Development Center	UNO	59.037	\$ <u>95,026</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Expenditures</b>
<i>U.S. Dept. of Health and Human Services:</i>			
Maternal and Child Health Federal Consolidated	Nebraska HHS	93.110	\$ 20,205
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Nebraska HHS	93.283	\$ 16,520
National Center for Research Resources	UNMC	93.389	\$ 189,677
Rural Health Outreach and Rural Network Development	Golden Rod Hills Comm. Act Elkhorn Logan Valley Public Health Dept.	93.912	\$ 13,546
Maternal and Child Health Services Block Grant	Golden Rod Hills Comm. Act Elkhorn Logan Valley Public Health Dept.	93.994	<u>\$ 1,500</u>
<i>Total U.S. Dept. of Health and Human Services</i>			\$ 241,448
<i>Corporation for National and Community Service:</i>			
Learn and Serve America School and Community Based Programs	UNL	94.004	\$ 20,315
Learn and Serve America Higher Education	UNL	94.005	<u>\$ 10,000</u>
<i>Total Corporation for National and Community Service</i>			<u>\$ 30,315</u>
<b>Total Federal Awards</b>			<u><u>\$ 30,291,780</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2005

- Note 1:** This schedule includes the Federal awards activity of the Nebraska State College System (NSCS) 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 NSCS 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 NSCS.
- Note 4:** The NSCS 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 \$3,111,674, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Chadron	Peru	Wayne	Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid:						
Supplemental Educational Opportunity Grant		84.007	\$ 55,557	\$ 35,514	\$ 78,633	\$ 169,704
Federal Family Education Loan		84.032	\$ 873,259	\$ 3,311,310	\$ 9,295,264	\$ 13,479,833
Federal Work Study		84.033	\$ 301,064	\$ 79,956	\$ 124,232	\$ 505,252
Perkins Loan		84.038	\$ 1,518,909	\$ 536,914	\$ 1,757,217	\$ 3,813,040
Pell Grant		84.063	\$ 2,261,568	\$ 1,218,083	\$ 2,991,348	\$ 6,470,999
Federal Direct Student Loans (Direct Loan)		84.268	\$ 4,069,964	\$ -	\$ -	\$ 4,069,964
Total Student Financial Aid			\$ 9,080,321	\$ 5,181,777	\$ 14,246,694	\$ 28,508,792
Higher Education Institutional Aid		84.031	\$ 8,082	\$ -	\$ -	\$ 8,082
Trio Student Support Services		84.042	\$ 245,931	\$ 254,308	\$ 274,587	\$ 774,826
Migrant Education - State Grant Program		84.011	\$ -	\$ -	\$ 3,510	\$ 3,510
Special Education Grants to States	NE Dept. of Education	84.027	\$ 2,764	\$ -	\$ -	\$ 2,764
Leveraging Educational Assistance Partnership Grants	CCPE	84.069	\$ 14,777	\$ 7,079	\$ 21,867	\$ 43,723
Bilingual Education Professional Development		84.195	\$ -	\$ -	\$ 19,318	\$ 19,318

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Chadron	Peru	Wayne	Expenditures
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	\$ -	\$ -	\$ 33,633	\$ 33,633
Mathematics & Science Partnerships	NE Dept. of Education	84.366	\$ -	\$ -	\$ 58,270	\$ 58,270
Improving Teacher Quality State Grants	NE Dept. of Education CCPE	84.367	\$ 58,912	\$ -	\$ 5,586	\$ 64,498
<i>Total U.S. Dept. of Education</i>			<u>\$ 9,410,787</u>	<u>\$ 5,443,164</u>	<u>\$ 14,663,465</u>	<u>\$ 29,517,416</u>
<i>U.S. Dept. of Housing and Urban Development</i>						
Community Development Block Grants	NE Dept. of Economic Development	14.228	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,500</u>	<u>\$ 12,500</u>
<i>U.S. Dept. of Interior:</i>						
U.S. Geological Survey Research and Data Acquisition	UNO (GENO Only)	15.808	<u>\$ 37,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,624</u>
<i>U.S. Dept. of Justice:</i>						
Grants to Reduce Violent Crimes Against Women on Campus		16.525	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,749</u>	<u>\$ 82,749</u>
<i>U.S. Dept. of State</i>						
Cooperative Grants		19.420	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,695</u>	<u>\$ 5,695</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Chadron</b>	<b>Peru</b>	<b>Wayne</b>	<b>Expenditures</b>
<i>U.S. Dept. of Transportation:</i> Highway Planning and Construction	NE Dept. of Roads	20.205	\$ 204,316	\$ -	\$ -	\$ 204,316
<i>National Foundation on Arts &amp; Humanities:</i> Promotion of the Arts Challenge America Grants	SD Humanities Council	45.129	\$ 600	\$ -	\$ -	\$ 600
<i>National Science Foundation:</i> Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	\$ -	\$ 52,331	\$ 8,030	\$ 60,361
Education and Human Resources	Nebraska Epscor NE Academy of Science	47.076	\$ 923	\$ -	\$ 2,807	\$ 3,730
<i>Total National Science Foundation</i>			\$ 923	\$ 52,331	\$ 10,837	\$ 64,091
<i>U.S. Small Business Administration:</i> Small Business Development Center	UNO	59.037	\$ 2,563	\$ -	\$ 92,463	\$ 95,026
<i>U.S. Dept. of Health and Human Services:</i> Maternal and Child Health Federal Consolidated	Nebraska HHS	93.110	\$ -	\$ -	\$ 20,205	\$ 20,205
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Nebraska HHS	93.283	\$ 16,520	\$ -	\$ -	\$ 16,520

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2005

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Chadron	Peru	Wayne	Expenditures
National Center for Research Resources	UNMC	93.389	\$ 36,410	\$ -	\$ 153,267	\$ 189,677
Rural Health Outreach and Rural Network Development	Golden Rod Hills Comm. Action Elkhorn Logan Valley Public Health Dept.	93.912	\$ -	\$ -	\$ 13,546	\$ 13,546
Maternal and Child Health Services Block Grant	Golden Rod Hills Comm. Action Elkhorn Logan Valley Public Health Dept.	93.994	\$ -	\$ -	\$ 1,500	\$ 1,500
<i>Total U.S. Dept. of Health and Human Services</i>			\$ 52,930	\$ -	\$ 188,518	\$ 241,448
<i>Corporation for National and Community Service:</i>						
Learn and Serve America School and Community Based Programs	UNL	94.004	\$ 3,897	\$ -	\$ 16,418	\$ 20,315
Learn and Serve America Higher Education	UNL	94.005	\$ -	\$ 10,000	\$ -	\$ 10,000
<i>Total Corporation for National and Community Service</i>			\$ 3,897	\$ 10,000	\$ 16,418	\$ 30,315
<i>Total Federal Awards</i>			<u>\$ 9,713,640</u>	<u>\$ 5,505,495</u>	<u>\$ 15,072,645</u>	<u>\$ 30,291,780</u>

See Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, NE 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

**Kate Witek**  
State Auditor  
[Kate.Witek@apa.ne.gov](mailto:Kate.Witek@apa.ne.gov)

## NEBRASKA STATE COLLEGE SYSTEM **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**

**Deann Haeffner, CPA**  
Deputy State Auditor  
[Deann.Haeffner@apa.ne.gov](mailto:Deann.Haeffner@apa.ne.gov)

Board of Trustees of the Nebraska State College System  
Lincoln, Nebraska

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[Don.Dunlap@apa.ne.gov](mailto:Don.Dunlap@apa.ne.gov)

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[Pat.Reding@apa.ne.gov](mailto:Pat.Reding@apa.ne.gov)

**Tim Channer, CPA**  
Asst. Deputy Auditor  
[Tim.Channer@apa.ne.gov](mailto:Tim.Channer@apa.ne.gov)

**Mary Avery**  
SAE/Finance Manager  
[Mary.Avery@apa.ne.gov](mailto:Mary.Avery@apa.ne.gov)

**Dennis Meyer, CGFM**  
Subdivision Budget  
Coordinator  
[Dennis.Meyer@apa.ne.gov](mailto:Dennis.Meyer@apa.ne.gov)

**Mark Avery, CPA**  
Subdivision Audit  
Review Coordinator  
[Mark.Avery@apa.ne.gov](mailto:Mark.Avery@apa.ne.gov)

**Perry Pirsch, JD, MPA**  
Legal Counsel  
[Perry.Pirsch@apa.ne.gov](mailto:Perry.Pirsch@apa.ne.gov)

We have audited the financial statements of the Nebraska State College System (NSCS) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 23, 2005, 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 NSCS, as of and for the year ended June 30, 2005, December 31, 2004, and June 30, 2005, respectively. Those statements are presented separately on pages 12 through 14, 16 through 18, and 21 through 23. 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 NSCS'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 NSCS'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 #05-01.

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 NSCS in a separate letter dated November 23, 2005.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the NSCS'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 NSCS in a separate letter dated November 23, 2005.

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 23, 2005

  
Assistant Deputy Auditor

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, NE 68509  
402-471-2111, FAX 402-471-3301  
www.auditors.state.ne.us

Kate Witek  
State Auditor  
Kate.Witek@apa.ne.gov

## NEBRASKA STATE COLLEGE SYSTEM 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

Deann Haeffner, CPA  
Deputy State Auditor  
Deann.Haeffner@apa.ne.gov

Board of Trustees of the Nebraska State College System  
Lincoln, Nebraska

Don Dunlap, CPA  
Asst. Deputy Auditor  
Don.Dunlap@apa.ne.gov

Pat Reding, CPA  
Asst. Deputy Auditor  
Pat.Reding@apa.ne.gov

Tim Channer, CPA  
Asst. Deputy Auditor  
Tim.Channer@apa.ne.gov

Mary Avery  
SAE/Finance Manager  
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM  
Subdivision Budget  
Coordinator  
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA  
Subdivision Audit  
Review Coordinator  
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA  
Legal Counsel  
Perry.Pirsch@apa.ne.gov

### Compliance

We have audited the compliance of the Nebraska State College System (NSCS) 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, 2005. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely component units of NSCS. The NSCS'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 NSCS's management. Our responsibility is to express an opinion on the NSCS'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 NSCS'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 NSCS'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, 2005.

### **Internal Control Over Compliance**

The management of the NSCS 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 NSCS'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 23, 2005

  
Assistant Deputy Auditor

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

**I. Summary of Auditor's Results**

- a. Type of report issued as it related to the Nebraska State College System's (NSCS) basic financial statements: Unqualified.
- b. A reportable condition in internal control was disclosed by the audit of the NSCS's financial statements and is included in the Schedule of Findings and Questioned Costs in Part II, as item #05-01, which is not considered a material weakness.
- c. The audit disclosed no instances of noncompliance which were material to the NSCS'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 (Direct Loan)
- f. The threshold used to distinguish between Type A and Type B programs: \$908,753.
- g. The NSCS does 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 #05-01**

**Reconciliation of Bank Records to the Nebraska Information System**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Continued)

**Finding #05-01** (Continued)

**Reconciliation of Bank Records to the Nebraska Information System** (Continued)

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a timelier manner, and on at least a monthly basis, to ensure all financial information is correct on

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Continued)

**Finding #05-01** (Continued)

**Reconciliation of Bank Records to the Nebraska Information System** (Continued)

NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

**III. Findings and Questioned Costs Relating to Federal Awards:**  
**NONE**

**IV. Summary Schedule of Prior Year Audit Findings:**

Finding: #04-01

Status: #05-01