

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

JULY 1, 2006 THROUGH JUNE 30, 2007

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Issued on December 11, 2007

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

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

SUMMARY OF COMMENTS

During our audit of the Nebraska State College System (NSCS), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Perkins Loan Grace Period Contacts – Peru State College, Wayne State College, and Chadron State College:*** The Colleges did not document Perkins loans borrowers having been consistently contacted three separate, distinct times during the borrowers' initial and post-deferment grace periods.

2. ***IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College:*** At all three campuses at least one individual who performed programmer duties, was also the Student Information System (SIS) database administrator (DBA), and had access to live data for the application tested.

More detailed information on the above items is provided in the Schedule of Findings and Questioned Costs on pages 63 through 68. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the NSCS to provide them an opportunity to review the report. The NSCS's responses to the comments and recommendations included in this report can be found in the Schedule of Findings and Questioned Costs on pages 63 through 68. The responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska), as of and for the year ended June 30, 2007, which collectively comprise the Nebraska State College System's basic financial statements as listed in the Table of Contents. 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, 2007, December 31, 2006, and June 30, 2007, respectively, and the related Statements of Activities and Cash Flows for the years then ended. Those statements are presented separately on pages 14 through 16, 18 through 20, and 23 through 25. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation, a blended component unit of the NSCS, as of June 30, 2007. The Revenue and Refunding Bond Fund and Facilities Corporation assets represent 5% and 16% of the total assets of the primary government, respectively. The financial statements of the Foundations, Revenue and Refunding Bond Fund, and Facilities Corporation 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 the Chadron State, Peru State, and Wayne State Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundations, the Revenue and Refunding Bond Fund, and the Facilities Corporation were not

audited in accordance with *Government Auditing Standards*. 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 our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the NSCS, as of June 30, 2007, and December 31, 2006 (Peru State Foundation) and the respective changes in their financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of the Nebraska State College System'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 read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 financial statements that collectively comprise the NSCS's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Combining Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 10, 2007


Assistant Deputy Auditor

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, 2007. The analysis has been prepared by management of the NSCS and is intended to be read with the financial statements and the related footnotes that follow this section.

Management's discussion and analysis relates only to the NSCS and does not include any overview of the financial position and activities of the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation which are considered component units of the NSCS.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the NSCS'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 NSCS'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 NSCS'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 NSCS's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the NSCS'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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

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 NSCS 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 NSCS Office.

The audit for the fiscal year ended June 30, 2007, 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, LB 1, passed in 2001, and LB605, passed in 2006. 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 14 through 16, 18 through 20, and 23 through 25 of this report.

**Nebraska State College System
Net Assets as of June 30**

	Primary Government	
	2007	2006
Current Assets	\$ 47,629,493	\$ 23,150,100
Noncurrent Assets		
Capital Assets	101,943,591	96,684,119
Other Noncurrent Assets	11,387,540	10,737,072
Total Assets	160,960,624	130,571,291
Current Liabilities	12,421,129	10,601,186
Noncurrent Liabilities	47,481,767	27,252,688
Total Liabilities	59,902,896	37,853,874
Net Assets		
Invested in Capital assets, Net of Related Debt	72,433,134	67,482,612
Restricted	18,374,885	16,030,981
Unrestricted	10,249,709	9,203,824
Total Net Assets	\$ 101,057,728	\$ 92,717,417

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

**Nebraska State College System
Changes in Net Assets For Year Ended June 30**

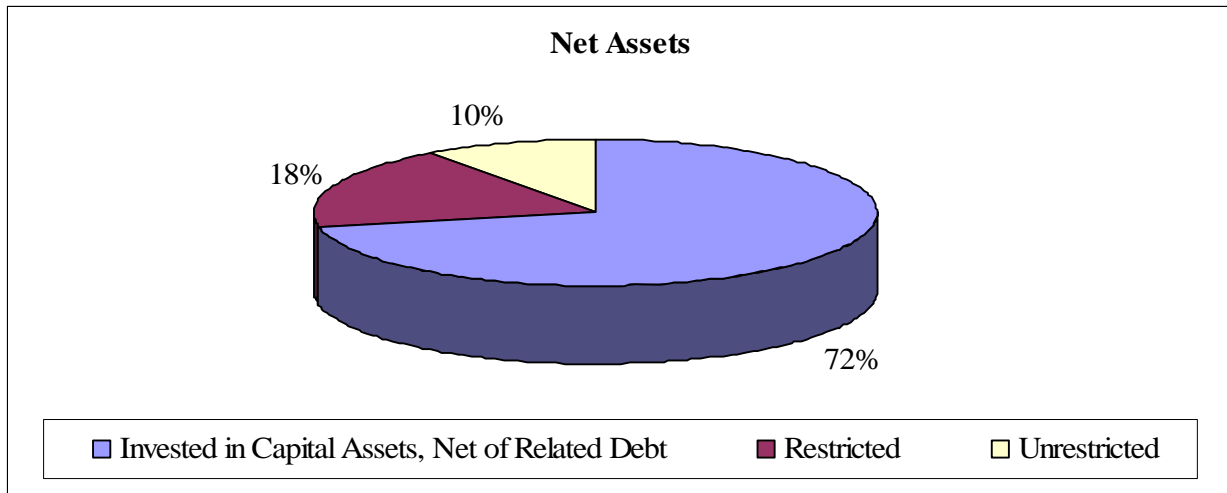
	<u>2007</u>	<u>2006</u>
Operating Revenues		
Tuition and Fees, Net	\$ 17,135,747	\$ 15,713,468
Federal and State Grants and Contracts	9,250,409	9,222,408
Private Grants and Contracts	1,288,211	1,003,635
Auxiliary Enterprises, Net	10,941,669	10,028,053
Other Operating Revenues	<u>701,981</u>	<u>398,607</u>
Total Operating Revenues	39,318,017	36,366,171
Operating Expenses	<u>81,523,822</u>	<u>75,440,188</u>
Operating Loss	<u>(42,205,805)</u>	<u>(39,074,017)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	40,966,621	38,561,335
Investment Income	2,503,417	1,191,415
Interest on Capital Asset-Related Debt	(2,012,921)	(1,503,697)
Other Nonoperating (Expenses)	<u>(246,391)</u>	<u>122,449</u>
Total Nonoperating Revenues	<u>41,210,726</u>	<u>38,371,502</u>
Gain (Loss) before Other Revenues and Transfers	(995,079)	(702,515)
Capital Appropriations and Grants	7,859,799	4,464,523
Capital Contributions	79,447	335,126
Capital Facilities Fee	<u>1,396,144</u>	<u>1,098,727</u>
Increase in Net Assets	8,340,311	5,195,861
Net Assets, Beginning of Year	<u>92,717,417</u>	<u>87,521,556</u>
Net Assets, End of Year	<u>\$ 101,057,728</u>	<u>\$ 92,717,417</u>

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

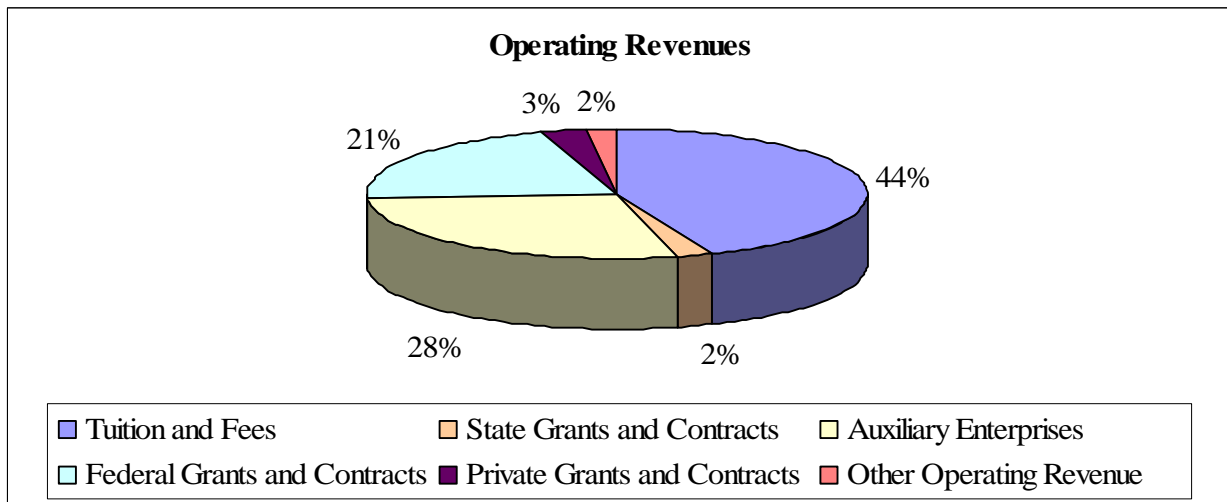
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

CHANGES IN NET ASSETS

At June 30, 2007, the NSCS had net assets of \$101.0 million, an increase of \$8.3 million or 9.0% over 2006. The net assets were comprised of Unrestricted - \$10.2 million; Restricted - \$18.4 million, and Invested in Capital Assets, Net of Related Debt - \$72.4 million.



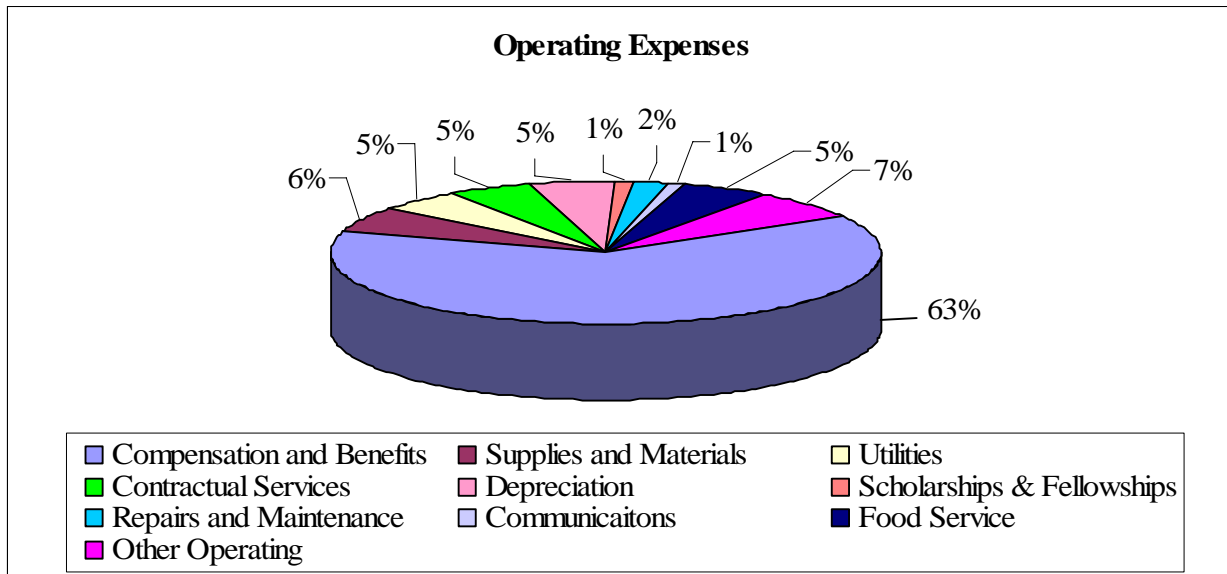
The operating revenues were \$39.3 million, compared to \$36.4 million in 2006, an 8.1% increase. Operating revenues include \$17.1 million in tuition and fees; Federal grants and contracts of \$8.3 million; State grants and contracts of \$1.0 million; private grants and contracts of \$1.3 million, auxiliary enterprises (net) of \$10.9 million, and other operating revenues of \$0.7 million.



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

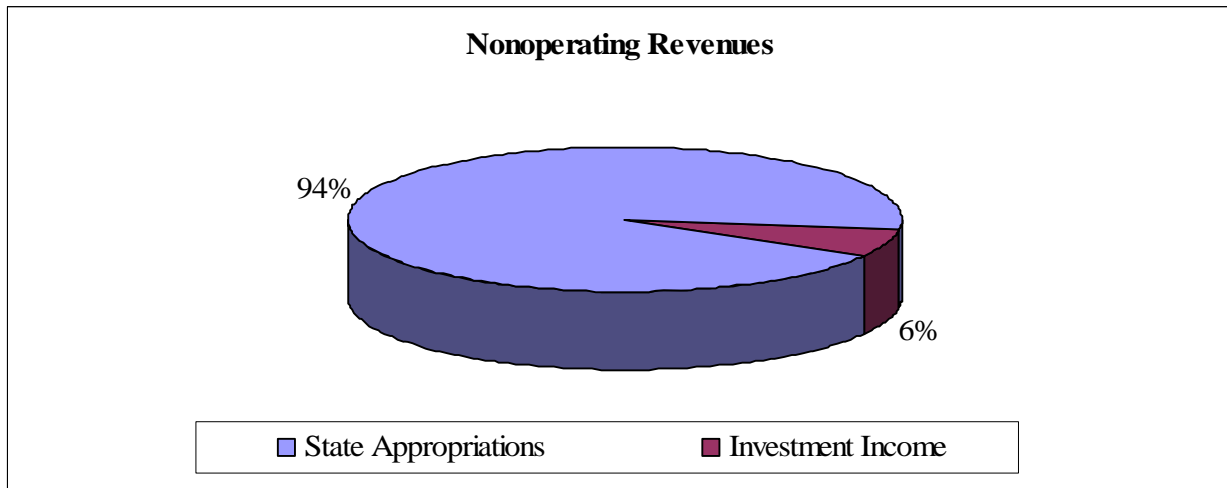
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Operating expenses for the year ended June 30, 2007, amounted to \$81.5 million, compared to \$75.4 million in 2006. Compensation and benefits accounted for \$51.4 million, or 63.1% of the total; contractual services were \$3.8 million; supplies and materials, \$5.1 million; scholarships and fellowships, \$17.0 million; depreciation, \$4.0 million; utilities, \$3.9 million; repairs and maintenance, \$2.0 million; communications, \$1.0 million; food service, \$5.0 million; and other operating expenses, \$7.0 million.



The current year operating loss amounted to \$42.2 million, compared to an operating loss in 2006 of \$39.1 million.

Non-operating 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, 2006, to the fiscal year ended June 30, 2007, include increases in both current assets and long-term debt liabilities related to the issuance of \$21.9 million in LB605 bonds by the Nebraska State College Facilities Corporation. For previously existing bond issues, a total of \$3.1 million in long-term debt was paid. Tuition and fee income increased by \$1.4 million (9%) related to an increase in tuition rates as well as increased enrollments. Federal and State Grants and Contracts remained steady from fiscal year 2005-06 to 2006-07. Auxiliary Enterprise revenues were up \$0.9 million, or 9.1% from last year, reflecting both increased rates and increased participation in the revenue bond programs. Expenses for auxiliary services also reflect this increased participation, with food service costs up 10.7%. Non-operating revenues increased, with a 6.2% increase in State appropriations, and a 110.0% increase in investment income. This significant increase in investment income relates to interest earned on the construction funds for the recently issued LB605 bonds. Operating expenses for the year ended June 30, 2007, increased by \$6.1 million, or 8.1%. Approximately \$3.0 million or nearly half of the increase was in compensation and benefits. Health insurance costs continue to play a significant role in the increases for compensation and benefits with an 8.4% increase in premiums for 2006-07. Utility costs increased 7.3%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2007, the NSCS had recorded \$162.6 million in gross capital assets. During the fiscal year ended June 30, 2007, the investment in buildings and improvements increased by \$7.4 million; the investment in infrastructure increased by \$0.6 million; furniture, fixtures, and equipment decreased by \$0.5 million; library materials increased by \$0.3 million; art increased by \$0.02 million; construction in progress increased by \$0.7 million; and land decreased by \$0.1 million. At the end of the fiscal year, the NSCS had \$60.7 million in accumulated depreciation that left \$101.9 million in net capital assets.

At the end of the fiscal year, the NSCS had \$51.6 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$48.6 million and \$2.3 million in accrued compensated absences. New long-term debt included \$21.9 in Facilities Corporation bonds for LB605. Previously existing bond obligations were reduced by \$3.1 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. At Chadron State College, Sparks Hall is nearing completion. This project converts the building to administrative offices for the campus. Work is also underway at Chadron State for a renovation to the Administration Building, which will convert the building entirely for academic use. The Al Wheeler Activities Center (AWAC) at Peru State is currently being renovated and a project to install emergency power generators is nearly complete. At Wayne State College, an addition was completed to the Carhart Science building for an elevator, stair tower, and ADA restrooms. Construction is underway for a renovation and addition to the

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

Campus Service building, and construction documents for the renovation to the basement of Rice Auditorium and the Stadium are almost complete. A street improvement project is also nearing completion at Wayne. Various tuckpointing, 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.

ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE

The funding picture was improved for the NSCS for the year ended June 30, 2007. The appropriation was increased 6.2% over the previous year. For fiscal year 2006-07, the tuition increase was 4.9%, and the undergraduate per-credit-hour tuition rate was \$102.50, a very competitive level regionally. The State appropriation for 2007-08 is increased an additional 5.5% and tuition is increased by 7.3% to \$110.00 for resident undergraduates, which remains competitive.

Enrollment at the State colleges increased by 2.3% in 2006-07, and fall enrollments are again higher for 2007-08. The NSCS continues to engage 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, which would meet with the goals of the LR 174 Committee to attract more students to Nebraska and educate them here, thus increasing the workforce and improving economic development. The 2007 Legislature approved Wayne State College's share of the funding for a new shared facility in South Sioux City, with construction anticipated to be complete in fiscal 2010-11.

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. In April of 2006, the Legislature approved and the Governor signed LB 605, which provides intent to appropriate \$1,125,000 annually to the Board of Trustees for a period of 14 years beginning July 1, 2006, and continuing through the fiscal year ending June 30, 2020, to undertake maintenance, repair, and renovation projects at the State colleges. Matching funds are required by the Board of Trustees in the amount of \$200,000 in 2006-07, \$400,000 in 2007-08, \$600,000 in 2008-09 and \$1,200,000 for each of the remaining 11 years. The matching funds are provided from the State Colleges Capital Improvement Fund, which is derived from a per-credit-hour charge on all students attending a State college. LB 605 authorizes the Nebraska State College Facilities Corporation to issue bonds for eligible projects. Current projects approved by the Board of Trustees include:

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

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

Chadron Academic/Administration Building renovation	\$ 4,865,322
Peru emergency power generator	832,500
Peru AWAC renovation/addition & bleachers replacement	5,230,473
Wayne Campus Services Building renovation/addition	5,185,466
Wayne Memorial Stadium/Rice Auditorium lower level renovation	3,766,611
Wayne Street Improvement Project	<u>1,516,000</u>
	<u>\$ 21,396,372</u>

As funding allows, additional project funds may be approved for the projects above and/or for systemwide miscellaneous fire and life safety, energy conservation, deferred repair, Federal Americans with Disabilities Act of 1990, and asbestos removal projects, in accordance with LB605.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2007

Assets

Current Assets

Cash and Cash Equivalents	\$	15,356,545
Restricted Cash and Cash Equivalents		27,977,480
Investments Held by Trustee		1,409,885
Accounts Receivable, Net of Allowance		634,961
State Grants and Appropriations Receivable		895,751
Other Receivables		346,915
Inventories		156,009
Loans to Students, Net		566,262
Prepaid Expenses		279,409
Deposits with Vendors		6,276
		47,629,493
Total Current Assets		47,629,493

Noncurrent Assets

Restricted Cash and Cash Equivalents		6,994,547
Restricted Investments Held by Trustee		1,473,916
Investment Income Receivable		12,314
Loans to Students, Net		2,093,049
Capital Assets, Net		101,943,591
Deferred Bond Issue Costs, Net		813,714
		113,331,131
Total Noncurrent Assets		113,331,131
Total Assets		160,960,624

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities		6,634,002
Accrued Compensated Absences		305,324
Other Liabilities		81,634
Deferred Revenue		268,326
Interest Payable		962,182
Long-term Debt - Current Portion		3,757,121
Deposits Held in Custody for Others		412,540
		12,421,129
Total Current Liabilities		12,421,129

Noncurrent Liabilities

Accrued Compensated Absences		2,034,489
Unamortized Bond Premium		340,325
Other Noncurrent Liabilities		294,074
Long-term Debt		44,812,879
		47,481,767
Total Noncurrent Liabilities		47,481,767
Total Liabilities		59,902,896

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS

June 30, 2007

Net Assets	
Invested in Capital Assets, Net of Related Debt	72,433,134
Restricted for:	
Expendable	
Loans	3,142,689
Debt service	12,530,023
Other	2,702,173
Unrestricted	<u>10,249,709</u>
 Total Net Assets	 <u><u>\$ 101,057,728</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, 2007

ASSETS

Cash and Equivalents - Unrestricted	\$	339,657
Cash and Equivalents - Restricted		240,740
Investments		9,298,713
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$24,669 for 2007		224,354
In-Kind Receivables		-
Other Assets		2,872,957
Property and Equipment, Net of Accumulated Depreciation		418,321
TOTAL ASSETS	\$	13,394,742

LIABILITIES AND NET ASSETS

Accounts Payable	\$	14,091
Wages Payable		35,587
Scholarships Payable		340,263
Deferred Revenue		14,159
Due to Other Agencies		504,906
TOTAL LIABILITIES		909,006
Unrestricted Net Assets:		
Operations		43,736
CSC Endowment		334,050
Temporarily Restricted Net Assets:		
Donor Designated		2,520,074
Named Endowment Activity		1,757,509
Permanently Restricted Net Assets:		
Named Endowment		7,830,367
TOTAL NET ASSETS		12,485,736
TOTAL LIABILITIES AND NET ASSETS	\$	13,394,742

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, 2006

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	242,236
Unconditional Promises to Give		12,222
Student Loans Receivable, Less Allowance for Doubtful Accounts of \$8,325 for 2006		7,687
Interest Receivable		5,203
Prepaid Expenses		101,000
Current Portion of Notes Receivable		26,965
Total Current Assets		395,313

PROPERTY AND EQUIPMENT

Land		65,115
Office Furniture and Fixtures		32,275
Rental Property		169,618
Vehicles		13,969
		280,977
Less Accumulated Depreciation		43,932
Total Property and Equipment		237,045

OTHER ASSETS

Investments		9,585,095
Notes Receivable, Less Current Portion		91,213
Total Other Assets		9,676,308
	\$	10,308,666

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	19,849
Accrued Compensation		51,405
Refundable Deposits		56,124
Current Portion of Gift Annuity		27,413
Total Current Liabilities		154,791

LONG-TERM LIABILITIES

Gift Annuity, Less Current Portion		175,837
Deferred Compensation Payable		205,716
Total Long-Term Liabilities		381,553
Total Liabilities		536,344

NET ASSETS

Unrestricted Net Assets:		
Operating		2,983,665
Board Designated		733,432
Total Unrestricted Net Assets		3,717,097
Temporarily Restricted		1,929,700
Permanently Restricted		4,125,525
Total Net Assets		9,772,322
	\$	10,308,666

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, 2007

ASSETS

Cash and Cash Equivalents-Unrestricted	\$	41,206
Cash and Cash Equivalents-Restricted		205,370
Accrued Interest		2,265
Prepaid Expenses & Misc. Receivables		1,600
Unconditional Promises to Give		1,422,960
Investments		11,421,402
Real Estate		36,750
Cash Value Life Insurance		165,100
Assets Restricted for Annuity Contracts		
Investments		784,022
Real Estate		108,000
Assets Held in Perpetual Trust		
Investments		916,833
		916,833
TOTAL ASSETS	\$	15,105,508
		15,105,508

LIABILITIES & NET ASSETS

Accounts and Faculty Grants Payable	\$	19,863
Deferred (Un-earned) Event Revenue		6,108
Annuities Payable		404,693
Total Liabilities		430,664

Net Assets:

Unrestricted:		
Undesignated		1,485,425
Designated		209,857
Total Unrestricted Net Assets		1,695,282
Temporarily Restricted		4,129,853
Permanently Restricted		8,849,709
Total Net Assets		14,674,844
TOTAL LIABILITIES		
AND NET ASSETS	\$	15,105,508
		15,105,508

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, 2007

Operating Revenues	
Tuition and Fees, Net	\$ 17,135,747
Federal Grants and Contracts	8,318,794
State Grants and Contracts	931,615
Private Grants and Contracts	1,288,211
Auxiliary Enterprises, Net	10,941,669
Other Operating Revenues	<u>701,981</u>
Total Operating Revenues	<u>39,318,017</u>
Operating Expenses	
Compensation and Benefits	51,414,264
Contractual Services	3,776,470
Supplies and Materials	5,097,048
Scholarships and Fellowships	694,274
Depreciation	4,059,750
Utilities	3,915,318
Repairs and Maintenance	2,011,168
Communications	1,063,527
Food Service	3,704,256
Other	<u>5,787,747</u>
Total Operating Expenses	<u>81,523,822</u>
Operating Loss	<u>(42,205,805)</u>
Nonoperating Revenue (Expenses)	
State Appropriations	40,966,621
Investment Income	2,503,417
Interest on Capital Asset-Related Debt	(2,012,921)
Other Nonoperating Expense	<u>(246,391)</u>
Net Nonoperating Revenue	<u>41,210,726</u>
Loss Before Other Revenues, Expenses, Gains or (Losses)	(995,079)
Capital Facilities Fees	1,396,144
Capital Contributions	79,447
Capital Appropriations and Grants	<u>7,859,799</u>
Increase in Net Assets	8,340,311
Net Assets, Beginning of Year	<u>92,717,417</u>
Net Assets, End of Year	<u><u>\$ 101,057,728</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)
CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Revenues, Gains, and Other Support	
Fundraising Income	\$ 511,293
Principle Contributions to Named Endowments	426,309
Management Fees	168,508
State Income	161,762
Unrealized Gain on Investments	968,648
Realized Gain on Investments	34,743
Change in the Value of Trusts	295,585
Interest and Dividend Income	273,280
Miscellaneous Income	10,758
Event Income	60,320
	2,911,206
Total Revenues, Gains, and Other Support	2,911,206
Transfer Between Net Assets	-
Net Assets Released From Restrictions	-
	-
Total Support and Reclassifications	2,911,206
Expenses	
Program Services	649,464
General and Management	316,400
Fundraising	313,782
	1,279,646
Total Expenses	1,279,646
Transfers to Sandoz Society	24,701
	24,701
Total Expenses and Transfers	1,304,347
INCREASE IN NET ASSETS	1,606,859
NET ASSETS BEGINNING OF YEAR	10,878,877
NET ASSETS ENDING	\$ 12,485,736

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, 2006

REVENUES, GAINS, AND ASSETS RELEASED

FROM RESTRICTIONS

Contributions	\$	356,880
Special Events		25,080
Interest and Dividends		335,943
Realized Gain on Investments		146,399
Unrealized Gain on Investments		587,510
Miscellaneous Income		26,881
Net Assets Released From Restrictions		-
Total Revenues, Gains, and Assets Release From Restrictions		1,478,693

EXPENSES

Program Expenses		314,965
Management Expenses		804,826
Fundraising Expenses		154,177
Total Expenses		1,273,968

INCREASE (DECREASE) IN NET ASSETS 204,725

NET ASSETS - BEGINNING OF YEAR 9,567,597

NET ASSETS - END OF YEAR \$ 9,772,322

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
For the Year Ended June 30, 2007

Revenue and Other Support:	
Gift/Contributions Income	\$ 1,991,546
Interest and Dividends	280,005
Net Gain on Investments	1,443,250
Endowment Fees	-
Other Non Gift Income	197,141
	3,911,942
Total Revenue and Other Support	3,911,942
Net Assets Released From Restrictions	-
Expenses	
General and Administrative	162,010
Fundraising	291,415
Program Expenses	1,043,562
	1,496,987
Total Expenses Before Amortization	1,496,987
Amortization of Annuity Contracts	56,213
Total Expenses	1,553,200
Net Increase in Net Assets	2,358,742
Net Assets, Beginning of Year	12,316,102
Net Assets, End of Year	\$ 14,674,844

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, 2007

Operating Activities	
Tuition and Fees	\$ 16,938,070
Grants and Contracts	10,538,621
Payments to Suppliers	(21,416,581)
Payments for Utilities	(3,868,827)
Payments to Employees	(51,202,766)
Loans Issued to Students	(485,831)
Collections of Loans to Students	590,331
Sales and Services of Auxiliary Enterprises	10,982,655
Other Receipts (Payments)	<u>174,498</u>
Net Cash Used in Operating Activities	<u>(37,749,830)</u>
Noncapital Financing Activities	
State Appropriations	40,402,745
Grants and Contracts	54,191
Other Receipts (Payments)	<u>(178,482)</u>
Net Cash Provided by Noncapital Financing Activities	<u>40,278,454</u>
Capital and Related Financing Activities	
Receipt from State for Capital Purchases	8,407,076
Proceeds from Capital Debt	22,460,343
Purchase of Capital Assets	(8,620,868)
Principal Paid on Capital Debt	(3,110,000)
Interest Paid on Capital Debt	(1,611,483)
Capital Facilities Fees	1,424,819
Transfers Out	537,463
Other	(592,051)
Capital Contributions	<u>79,447</u>
Net cash Provided by Capital and Related Financing Activities	<u>18,974,746</u>
Investing Activities	
Purchase/sale of Investments	(15,684)
Investment Income	<u>2,413,512</u>
Net Cash Provided by Investing Activities	<u>2,397,828</u>
Increase in Cash and Cash Equivalents	<u>23,901,198</u>
Cash and Cash Equivalents, Beginning of Year	<u>26,427,374</u>
Cash and Cash Equivalents, End of Year	<u>\$ 50,328,572</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	\$ 15,356,545
Restricted Cash and Cash Equivalents - Current	27,977,480
Restricted Cash and Cash Equivalents - Noncurrent	<u>6,994,547</u>
Total Cash and Cash Equivalents	<u>\$ 50,328,572</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2007

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

Operating Loss	\$ (42,205,805)
Depreciation Expense	4,059,750
Changes in Operating Assets and Liabilities	
Receivables, Net	(148,571)
Inventories	11,488
Accounts Payable and Accrued Liabilities	441,240
Accrued Compensated Absences	90,873
Other Assets and Liabilities	1,195
	1,195

Net Cash Used in Operating Activities \$ (37,749,830)

Supplemental Cash Flows Information

Accounts Payable Incurred for Capital Asset Purchases	\$ 739,139
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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 NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 1,606,859
Adjustments to Reconcile Increase in Net Assets	
To Net Cash Provided by Operating Activities	
Depreciation	11,522
Unrealized Gain on Investments	(968,648)
Realized Gain on Sale of Investments	(34,743)
Change in the Value of Trusts	(295,585)
Loss on Sale of Property	-
(Increase) Decrease In:	
Contributions Receivable	(89,915)
In-Kind Receivables	17,586
Other Assets	-
Increase (Decrease) In:	
Accounts Payable	14,091
Wages Payable	1,568
Scholarships Payable	9,713
Deferred Revenue	(346)
Due to Other Agencies	99,571
	371,673
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in Cash Surrender Value of Life Insurance	(462)
Proceeds From Sale of Investments	770,677
Purchase of Investments	(1,119,464)
Purchase of Property	(3,799)
Proceeds From Sale of Property	-
Proceeds From the Redemption of Annuity	-
	(353,048)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital Contributed to Sandoz Society	(24,701)
	(6,076)
CASH AND EQUIVALENTS BEGINNING OF YEAR	586,473
CASH AND EQUIVALENTS END OF YEAR	\$ 580,397
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash and Equivalents - Unrestricted	\$ 339,657
Cash and Equivalents - Restricted	240,740
	\$ 580,397

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 CASH FLOWS
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ 204,725
Adjustments to Reconcile Increase (Decrease) in Net Assets to	
Net Cash Used in Operating Activities:	
Depreciation	5,310
Unrealized Gain on Investments	(587,510)
Realized Gain on Sale of Investments	(146,399)
Contributed Investments	(7,858)
Deferred Compensation	205,716
Changes in Current Assets and Current Liabilities:	
Decrease (Increase) in Unconditional Promises to Give	4,119
Decrease in Student Loans Receivable	1,809
Decrease in Interest Receivable	1,122
(Increase) Decrease in Prepaid Expenses	(80,053)
Increase (Decrease) in Accounts Payable	6,972
Increase in Accrued Compensation	19,718
(Decrease) Increase in Refundable Deposits	(6,735)
Net Cash Used in Operating Activities	<u>(379,064)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds From Sale of Investments	641,977
Purchases of Investments	(345,417)
Payments Received on Notes Receivable	25,495
Purchases of Property and Equipment	(88,306)
Net Gift Annuity Payments (Contributions)	(11,432)
Net Cash Provided By Investing Activities	<u>222,317</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(156,747)</u>

CASH AND EQUIVALENTS - BEGINNING OF YEAR 398,983

CASH AND EQUIVALENTS - END OF YEAR \$ 242,236

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 CASH FLOWS
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 2,358,742
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	3,000
Amortization of Annuity Obligations	56,213
Non Cash Contributions	(120,627)
(Net Gain) on Investments & (Reinvested Income)	(1,443,250)
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable/Prepays & Misc. Receivables	(812)
Unconditional Promises to Give	(113,926)
Cash Value Life Insurance	(8,134)
Increase (Decrease) in Operating Non-Cash Liabilities:	
Accounts Payable/Faculty Grants Payable	2,310
Net Cash Provided by Operating Activities	<u>733,516</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net (Purchases) of Investments	(595,001)
Net Cash Used by Investing Activities	<u>(595,001)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Annuity Contracts	44,098
Payments on Annuity Contracts	(71,012)
Net Cash (Used) by Financing Activities	<u>(26,914)</u>
NET CHANGE IN CASH & CASH EQUIVALENTS	<u>111,601</u>
Cash & Cash Equivalents, Beginning of Year	<u>134,975</u>
CASH & CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 246,576</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)

NOTES TO FINANCIAL STATEMENTS

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 NSCS 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. The 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 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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Discretely Presented Component Units

In implementing GASB Statement No. 39 the State College Board of Trustees determined Chadron State, Peru State, and Wayne State Foundations (Foundations) are legally separate, tax-exempt nonprofit foundations incorporated in the State of Nebraska. The Foundations act primarily as fund-raising organizations to supplement the resources that are available to their respective college in support of their programs. Although the colleges do not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon the Foundations hold and invest is restricted to the activities of their respective college by its donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, their respective 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, 2007, Chadron State and Wayne State Foundations distributed \$646,739 and \$1,055,120, respectively to their colleges; and during the year ended December 31, 2006, Peru State Foundation distributed \$395,227 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

The 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:

- 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

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 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.

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 Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundations are required to report information regarding their financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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, 2007.

The NSCS considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2007, cash equivalents consisted primarily of money market funds.

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments and Investment Income

The 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 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.

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

The Foundation pools its investments for greater flexibility in managing its investments. When investments are pooled, they lose their specific identification with specific contributions. Thus, the income, unrealized, 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.

Investments are reported at fair value.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Wayne State Foundation investments are composed of mutual funds, debt and equity securities, realty fund limited liability company money market accounts, and 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, 2007, the Foundation had market risk from concentration of investments in cash equivalents and investments with Common fund of \$10,925,674, which represents 88% 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 \$359,005 at June 30, 2007, and is identified by college as follows:

WSC	\$	155,305
CSC	\$	115,000
PSC	\$	88,700

Deferred Bond Issue Costs

The NSCS's bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2007, was \$813,714, and is identified by college as follows:

WSC	\$	117,600
CSC	\$	158,218
PSC	\$	27,849
NSCS Office	\$	510,047

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 \$231,355 at June 30, 2007, and is identified by college as follows:

WSC	\$	136,055
CSC	\$	65,000
PSC	\$	30,300

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 year. Expense and the related liability are recognized as vacation benefits when 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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Deferred Revenue

Deferred revenue represents unearned student tuition and fees and advances on grants and contract awards for which the 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 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, 2007, were \$7,407,625 and \$2,522,060, respectively and are identified by campus as follows:

	<u>Tuition and Fees</u>	<u>Auxiliary Enterprises</u>
WSC	\$ 3,369,271	\$ 1,530,368
CSC	\$ 1,633,343	\$ 409,883
PSC	\$ 2,405,011	\$ 581,809

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

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 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 disbursed to the participating agencies. These funds are considered to be cash and cash equivalents which are available for expenditures as needed.

Additional information on the deposit and investments portfolio including investment policies, risk, and type of investment can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

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

At June 30, 2007, the carrying value of the NSCS's bank deposits was \$28,777,930 and the bank balance was \$28,801,104. The bank balance at June 30, 2007, 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 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.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments

At June 30, 2007, the NSCS's investment balances, which had maturities of one to five years, had fair values as follows:

Investment Type:	
Debt Securities:	
Federal Home Loan Bank Securities	\$ 1,795,611
Federal National Mortgage Association Securities	739,874
	<hr/>
	2,535,485
Other Investments:	
Equity Securities	348,316
	<hr/>
	\$ 2,883,801

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 investments in U.S. agencies were rated AAA.

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 62% are in Federal Home Loan Bank Securities, 26% are Federal National Mortgage Association Securities, and 12% are Equity Securities.

Custodial Risk. For an investment, custodial 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 the NSCS.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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	\$	538,407
Deposits:		
Bank Deposits		28,777,930
Short Term Investment Pool		21,012,235
Investments		<u>2,883,801</u>
Total as of June 30, 2007	\$	<u><u>53,212,373</u></u>
Included in the Statement of Net Assets		
Cash and Cash Equivalents	\$	15,356,545
Restricted Cash and Cash Equivalents		34,972,027
Investments held by Trustee		<u>2,883,801</u>
	\$	<u><u>53,212,373</u></u>

The Chadron State Foundation's investments are stated at fair value and are shown below as of June 30, 2007:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized</u>
	<u>6/30/2007</u>	<u>Value</u>	<u>Appreciation</u>
	<u>6/30/2007</u>	<u>6/30/2007</u>	
LLC Groups:			
MGA Diversified Core Equity LLC	\$ 1,321,159	\$ 2,375,013	\$ 1,053,854
MGA Focused Core Equity LLC	776,673	928,200	151,527
MGA Diversified Sm/Mid Cap Equity LLC	558,555	1,220,495	661,940
MGA Focused Small Cap Equity LLC	438,406	528,787	90,381
MGA International Equity LLC	333,367	722,738	389,371
MGA Cash Reserves LLC	395,174	434,750	39,576
MGA Core Income LLC	1,555,396	1,720,743	165,347
MGA Total Return LLC	1,011,877	1,342,646	330,769
Cash and Equivalents	11,046	11,046	-
Kinder Morgan, Inc. Stock	<u>13,783</u>	<u>14,295</u>	<u>512</u>
 Total Investment	 <u>\$ 6,415,436</u>	 <u>\$ 9,298,713</u>	 <u>\$ 2,883,277</u>

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

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, 2006.

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Market Value
Fixed Income Funds:				
MGA Cash Reserves, LLC	\$ 91,581	\$ 8,172	-	\$ 99,753
MGA Core Income, LLC	1,961,932	314,087	-	2,276,019
MGA Total Return, LLC	837,892	480,323	-	1,318,215
Equity Funds:				
MGA Diversified Core Equity, LLC	1,133,001	1,202,048	-	2,335,049
MGA Focused Core Equity, LLC	1,016,996	138,033	-	1,155,029
MGA Diversified Small/Mid Cap Equity, LLC	313,628	477,874	-	791,502
MGA Focused Small Cap Equity, LLC	338,565	51,742	-	390,307
MGA International Equity, LLC	442,425	776,796	-	1,219,221
	<u>\$ 6,136,020</u>	<u>\$ 3,449,075</u>	<u>\$ -</u>	<u>\$ 9,585,095</u>

The Wayne State Foundation's investments are reported at their fair value and are summarized as follows for the year ended June 30, 2007.

	Unrestricted	Temporarily Restricted	Permanently Restricted	6/30/07 Total
Money markets	\$ 41,986	\$ 946,997	\$ 306	\$ 989,289
Certificates of Deposits	43,846	-	104,991	148,837
Commonfund- Real Estate Fund	-	-	773,297	773,297
Commonfund- Equity Fund	824,786	-	5,667,434	6,492,220
Commonfund- Bond Fund	385,951	-	2,491,846	2,877,797
Subtotal Commonfund	<u>1,210,737</u>	<u>-</u>	<u>8,932,577</u>	<u>10,143,314</u>
Other Securities	<u>-</u>	<u>57,199</u>	<u>82,763</u>	<u>139,962</u>
Totals	<u>\$ 1,296,569</u>	<u>\$ 1,004,196</u>	<u>\$ 9,120,637</u>	<u>\$ 11,421,402</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Capital Assets

The NSCS capital assets activity for the year ended June 30, 2007, was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Revaluations</u>	<u>Ending Balance</u>
Land	\$ 680,030	\$ -	\$ -	\$ 113,455	\$ 566,575
Building and Improvements	115,066,212	7,442,968	-	-	122,509,180
Infrastructure	16,233,840	581,064	-	-	16,814,904
Furniture, Fixtures, and Equipment	4,478,052	335,944	792,390	-	4,021,606
Library Materials	8,873,662	408,972	112,856	-	9,169,778
Art	265,871	16,000	-	-	281,871
Construction in Progress	8,559,484	8,839,640	8,118,001	-	9,281,123
	<u>154,157,151</u>	<u>17,624,588</u>	<u>9,023,247</u>	<u>113,455</u>	<u>162,645,037</u>
	<u>Accumulated Depreciation</u>				
Building and Improvements	41,375,822	2,623,748	-	-	43,999,570
Infrastructure	5,484,353	540,353	-	-	6,024,706
Furniture, Fixtures, and Equipment	2,917,814	492,621	776,715	-	2,633,720
Library Materials	7,695,043	461,263	112,856	-	8,043,450
Total Depreciation	<u>57,473,032</u>	<u>4,117,985</u>	<u>889,571</u>	<u>-</u>	<u>60,701,446</u>
Net Capital Assets	<u>\$ 96,684,119</u>	<u>\$ 13,506,603</u>	<u>\$ 8,133,676</u>	<u>\$ 113,455</u>	<u>\$ 101,943,591</u>
	<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	\$ 6,201	\$ -	\$ 566,575
Building and Improvements	32,746,967	24,133,277	21,629,366	-	78,509,610
Infrastructure	6,395,212	2,206,964	2,188,022	-	10,790,198
Furniture, Fixtures, and Equipment	558,595	531,140	297,575	576	1,387,886
Library Materials	380,124	558,303	187,901	-	1,126,328
Art	123,249	45,000	113,622	-	281,871
Construction in Progress	5,876,355	2,258,231	1,146,537	-	9,281,123
Net Capital Assets	<u>\$ 46,591,481</u>	<u>\$ 29,782,310</u>	<u>\$ 25,569,224</u>	<u>\$ 576</u>	<u>\$ 101,943,591</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Loan Obligations Payable	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 17,121
Revenue and Refunding Bonds	19,510,000	-	740,000	18,770,000	760,000
Facilities Corporation Bonds	10,005,000	21,915,000	2,370,000	29,550,000	2,980,000
Total Long-Term Debt Liabilities	<u>29,515,000</u>	<u>22,165,000</u>	<u>3,110,000</u>	<u>48,570,000</u>	<u>3,757,121</u>
Other Long-Term Liabilities:					
Accrued Compensated Absences	2,248,941	1,654,244	1,563,372	2,339,813	305,324
Unamortized Bond Premium	69,906	295,343	24,924	340,325	-
Other Liabilities	119,178	283,495	26,965	375,708	81,634
Total Other Long-Term Liabilities	<u>2,438,025</u>	<u>2,233,082</u>	<u>1,615,261</u>	<u>3,055,846</u>	<u>386,958</u>
Total Long-Term Liabilities	<u>\$ 31,953,025</u>	<u>\$ 24,398,082</u>	<u>\$ 4,725,261</u>	<u>\$ 51,625,846</u>	<u>\$ 4,144,079</u>

Termination Benefits

The NSCS has two programs which must be accounted under *GASB 47 Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program. Under the voluntary retirement program, employees who are 55 years of age or more on July 1, of the year in which he or she chooses to retire, and have ten or more years of consecutive service within the System will be paid one-quarter of their prior year base salary in 12 equal monthly installments following termination of employment. In addition, NSCS will pay the employee's health/dental insurance (State and employee burden) costs for the last insurance plan that the employee had during employment with the System during the 12-month period following termination of employment until the employee is Medicare eligible at which time NSCS will pay an amount equivalent to the cost of the Medicare Supplemental Plan chosen by the employee for the payout period remaining. Under the early retirement program employees who have completed at least ten years of continuous service within the NSCS and are 60 years of age or older will be paid the full cost (State and employee burden) of

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

the employee's health/dental insurance he or she had during the last year of employment prior to retirement. The college will continue to pay the health/dental insurance until the employee becomes Medicare eligible.

During the fiscal year ended June 30, 2007, four employees at WSC, two employees at PSC, six employees at CSC, and one employee at the NSCS Office participated in NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. Liability amounts are reflected in the Accrued Compensated Absences line item on the Statement of Net Assets, the Combining Schedule of Net Assets, and the Footnote amount above. All termination benefits are shown at present cost.

	Ending Balance	Current Portion
WSC	\$ 104,789	\$ 35,359
CSC	66,088	66,088
PSC	21,504	21,504
NSCS Office	41,994	34,994
Total	\$ 234,375	\$ 157,945

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

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 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.

In August 2006, the Nebraska State Colleges Facilities Corporation authorized the issuance of \$21,915,000 of Deferred Maintenance Bonds, Series 2006. Proceeds are used to finance the construction of certain renewal and renovation projects at each of the three college 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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

fees. The bonds bear interest payable semiannually, at rates of 3.55% - 4.25% and are due in semiannual installments, which began January 15, 2007. Principal maturities will begin July 15, 2007, and continue until 2020.

Peru State College Loan Obligation

In May 2007, PSC received a loan from the Peru State College Foundation to finance the renovation of the Al Wheeler Activity Center. The loan is a general obligation of PSC. The loan is not an obligation of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The loan bears interest payable annually at the rate of 3.50% and is due in annual installments which will begin May 1, 2008. Principal maturities will begin May 1, 2008, and continue until 2019.

Debt service requirements to maturity for all long-term debt of the NSCS are as follows:

Peru State College Loan Obligation Payable

Year Ending June 30	Principal	Interest	Total
2008	\$ 17,121	\$ 8,750	\$ 25,871
2009	17,720	8,151	25,871
2010	18,340	7,531	25,871
2011	18,982	6,889	25,871
2012	19,647	6,224	25,871
2013-2017	109,042	20,313	129,355
2018-2019	49,148	2,594	51,742
Total	<u>\$ 250,000</u>	<u>\$ 60,452</u>	<u>\$ 310,452</u>

Wayne State College Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2008	\$ 340,000	\$ 390,835	\$ 730,835
2009	350,000	380,663	730,663
2010	360,000	369,219	729,219
2011	375,000	356,481	731,481
2012	385,000	342,529	727,529
2013-2017	2,180,000	1,463,745	3,643,745
2018-2022	2,155,000	961,318	3,116,318
2023-2027	2,330,000	436,290	2,766,290
2028	535,000	13,375	548,375
Total	<u>\$ 9,010,000</u>	<u>\$ 4,714,455</u>	<u>\$ 13,724,455</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

Chadron State College Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2008	\$ 320,000	\$ 284,126	\$ 604,126
2009	320,000	274,046	594,046
2010	340,000	262,816	602,816
2011	345,000	250,483	595,483
2012	235,000	239,861	474,861
2013-2017	1,070,000	1,075,163	2,145,163
2018-2022	1,320,000	810,043	2,130,043
2023-2027	1,695,000	424,706	2,119,706
2028-2029	810,000	41,000	851,000
Total	<u>\$ 6,455,000</u>	<u>\$ 3,662,244</u>	<u>\$ 10,117,244</u>

Peru State College Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2008	\$ 100,000	\$ 148,272	\$ 248,272
2009	105,000	145,040	250,040
2010	110,000	141,383	251,383
2011	110,000	137,422	247,422
2012	120,000	133,078	253,078
2013-2017	655,000	589,653	1,244,653
2018-2022	815,000	425,226	1,240,226
2023-2027	1,050,000	196,155	1,246,155
2028	240,000	6,000	246,000
Total	<u>\$ 3,305,000</u>	<u>\$ 1,922,229</u>	<u>\$ 5,227,229</u>

Facilities Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2008	\$ 2,980,000	\$ 1,271,608	\$ 4,251,608
2009	4,320,000	1,148,374	5,468,374
2010	2,265,000	918,498	3,183,498
2011	1,455,000	837,982	2,292,982
2012	1,515,000	778,582	2,293,582
2013-2017	8,615,000	2,794,714	11,409,714
2018-2021	8,400,000	719,051	9,119,051
Total	<u>\$ 29,550,000</u>	<u>\$ 8,468,809</u>	<u>\$ 38,018,809</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Concluded)

Nebraska State College System Bond Summary

Year Ending	Principal	Interest	Total
June 30			
2008	3,757,121	2,103,591	5,860,712
2009	5,112,720	1,956,274	7,068,994
2010	3,093,340	1,699,447	4,792,787
2011	2,303,982	1,589,257	3,893,239
2012	2,274,647	1,500,274	3,774,921
2013-2017	12,629,042	5,943,588	18,572,630
2018-2022	12,739,148	2,918,232	15,657,380
2023-2027	5,075,000	1,057,151	6,132,151
2028-2029	1,585,000	60,375	1,645,375
Total	<u>\$ 48,570,000</u>	<u>\$ 18,828,189</u>	<u>\$ 67,398,189</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, 2007, the NSCS was in compliance with these requirements.

5. Operating Leases

Noncancellable operating leases related primarily to learning facility expenses expire in various fiscal years through 2012. These leases generally contain renewal options for periods ranging from one to five 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, 2007, were:

2008	\$ 154,060
2009	65,246
2010	65,186
2011	14,116
2012	625
	<u>\$ 299,233</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 of Trustees 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 2007, expressed as a percentage of covered payroll, were 6% and 8%. Contributions actually made for the fiscal year ended June 30, 2007, by plan members and the NSCS aggregated were \$2,082,205 and \$2,783,416, 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 \$854,990 in 2007. 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; and natural disasters. Responsibility for the coordination of a risk and insurance management program for the NSCS is assigned to the Chancellor. The responsibility for the development and implementation of the risk and insurance management program is assigned to each of the colleges' presidents. Mechanisms for identifying risks and for taking appropriate action to eliminate, abate, transfer, or retain these risks is also the responsibility of each college. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the self-insurance programs for natural disasters and workers' compensation, along with the motor vehicle liability insurance.

The NSCS has chosen to purchase insurance for:

- A. Health care and life insurance for eligible employees.
- B. General liability coverage, with limits ranging from \$1,000,000 per occurrence to \$5,000,000 in aggregate.
- C. Employee benefits liability, with limits of \$1,000,000 per each employee and \$1,000,000 annual aggregate.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. **Risk Management** (Concluded)

- D. Director and officer liability, with a limit of \$2,000,000 and a self-insured retention of \$100,000.
- E. Real and personal property on a blanket basis for losses up to \$500,000,000, with a deductible of \$250,000 per loss occurrence. Newly acquired properties are covered up to \$100,000,000 for 90 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each State agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by the NSCS assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the NSCS's financial statements.

8. **Commitments and Contingencies**

Construction Contracts

The Board of Trustees has authorized and approved construction commitments of \$18,800,447 as of June 30, 2007. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

WSC	\$	6,831,495
CSC	\$	4,778,845
PSC	\$	7,190,107

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)

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Restricted Net Assets

Restricted net assets report resources that are owned by the NSCS, but their use or purpose is restricted. Following is further classification information about the restricted net assets reported on the Statement of Net Assets:

Loans represent institutional loans and Federal program loan funds set aside to serve as revolving loan funds for students.

Debt Service represents the remaining Plant, Capital Improvement, Facilities Corporation, and Auxiliary balances not identified as being Invested in Capital Assets, Net of Related Debt.

Other includes \$885,244 in funds set aside by the Board of Trustees for various endowments and student scholarships and \$452,100 in unexpended Facilities Corporation project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

10. Governmental Accounting Standards Board (GASB) Statement Implementation

During the fiscal year ended June 30, 2007, the NSCS was not required to, and did not elect to, implement any new GASB Statements.

The NSCS will review and determine the applicability of the following GASB Statements which may have an effect on the financial statements of the NSCS for the years ending June 30, 2008, and beyond:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*;
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*;
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*;
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*;
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27*; and
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET ASSETS
June 30, 2007

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 2,496,026	\$ 2,709,517	\$ 10,145,261	\$ 5,741	\$ 15,356,545
Restricted Cash and Cash Equivalents	1,340,645	1,140,976	422,517	25,073,342	27,977,480
Investments Held by Trustee	-	-	-	1,409,885	1,409,885
Accounts Receivable, Net of Allowance	275,963	143,388	215,610	-	634,961
State Grants and Appropriations Receivable	1,220	568,543	285,550	40,438	895,751
Other Receivables	182,029	51,155	-	113,731	346,915
Inventories	38,486	29,933	87,590	-	156,009
Loans to Students, Net	201,593	71,037	293,632	-	566,262
Prepaid Expenses	188,135	40,454	49,945	875	279,409
Deposits with Vendors	-	-	6,056	220	6,276
Total Current Assets	<u>4,724,097</u>	<u>4,755,003</u>	<u>11,506,161</u>	<u>26,644,232</u>	<u>47,629,493</u>
Noncurrent Assets					
Restricted Cash and Cash Equivalents	2,335,071	1,127,258	3,532,218	-	6,994,547
Restricted Investments Held by Trustee	306,525	231,150	587,925	348,316	1,473,916
Investment Income Receivable	-	12,314	-	-	12,314
Loans to Students, Net	917,595	104,726	1,070,728	-	2,093,049
Capital Assets, Net	29,782,310	25,569,224	46,591,481	576	101,943,591
Deferred Bond Issue Costs, Net	158,218	27,849	117,600	510,047	813,714
Total Noncurrent Assets	<u>33,499,719</u>	<u>27,072,521</u>	<u>51,899,952</u>	<u>858,939</u>	<u>113,331,131</u>
Total Assets	<u>38,223,816</u>	<u>31,827,524</u>	<u>63,406,113</u>	<u>27,503,171</u>	<u>160,960,624</u>
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,633,617	809,073	3,052,827	1,138,485	6,634,002
Accrued Compensated Absences	116,087	47,947	99,830	41,460	305,324
Other Liabilities	35,299	46,335	-	-	81,634
Deferred Revenue	107,981	87,684	72,661	-	268,326
Interest Payable	144,463	76,344	197,789	543,586	962,182
Long-Term Debt - Current Portion	320,000	117,121	340,000	2,980,000	3,757,121
Deposits Held in Custody for Others	144,233	95,582	172,725	-	412,540
Total Current Liabilities	<u>2,501,680</u>	<u>1,280,086</u>	<u>3,935,832</u>	<u>4,703,531</u>	<u>12,421,129</u>
Noncurrent Liabilities					
Accrued Compensated Absences	664,288	351,320	925,975	92,906	2,034,489
Unamortized Bond Premium	-	-	-	340,325	340,325
Other Noncurrent Liabilities	153,117	140,957	-	-	294,074
Long-Term Debt	6,135,000	3,437,879	8,670,000	26,570,000	44,812,879
Total Noncurrent Liabilities	<u>6,952,405</u>	<u>3,930,156</u>	<u>9,595,975</u>	<u>27,003,231</u>	<u>47,481,767</u>
Total Liabilities	<u>9,454,085</u>	<u>5,210,242</u>	<u>13,531,807</u>	<u>31,706,762</u>	<u>59,902,896</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	23,485,528	22,042,073	37,699,081	(10,793,548)	72,433,134
Restricted for:					
Expendable					
Loans	1,279,875	454,938	1,407,876	-	3,142,689
Debt Service	2,441,755	1,489,896	3,242,943	5,355,429	12,530,023
Other	651,739	516,038	186,831	1,347,565	2,702,173
Unrestricted	910,834	2,114,337	7,337,575	(113,037)	10,249,709
Total Net Assets	<u>\$ 28,769,731</u>	<u>\$ 26,617,282</u>	<u>\$ 49,874,306</u>	<u>\$ (4,203,591)</u>	<u>\$ 101,057,728</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, 2007

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Revenues					
Tuition and Fees, Net	\$ 4,338,051	\$ 4,082,949	\$ 8,714,747	\$ -	\$ 17,135,747
Federal Grants and Contracts	2,972,889	1,765,700	3,580,205	-	8,318,794
State Grants and Contracts	245,601	295,672	390,342	-	931,615
Private Grants and Contracts	559,425	326,015	402,771	-	1,288,211
Auxiliary Enterprises, Net	4,173,189	1,474,544	5,293,936	-	10,941,669
Other Operating Revenues	21,495	74,066	606,420	-	701,981
	<u>12,310,650</u>	<u>8,018,946</u>	<u>18,988,421</u>	<u>-</u>	<u>39,318,017</u>
Operating Expenses					
Compensation and Benefits	17,469,746	9,821,933	23,217,904	904,681	51,414,264
Contractual Services	1,273,563	471,422	1,993,750	37,735	3,776,470
Supplies and Materials	3,039,863	640,254	1,416,931	-	5,097,048
Scholarships and Fellowships	226,968	105,328	361,978	-	694,274
Depreciation	1,404,546	796,399	1,858,266	539	4,059,750
Utilities	1,157,557	832,916	1,924,845	-	3,915,318
Repairs and Maintenance	564,663	259,761	1,186,744	-	2,011,168
Communications	350,140	230,085	483,302	-	1,063,527
Food Service	1,382,212	795,648	1,526,396	-	3,704,256
Other	1,405,766	1,540,126	2,582,928	258,927	5,787,747
	<u>28,275,024</u>	<u>15,493,872</u>	<u>36,553,044</u>	<u>1,201,882</u>	<u>81,523,822</u>
Operating Loss	<u>(15,964,374)</u>	<u>(7,474,926)</u>	<u>(17,564,623)</u>	<u>(1,201,882)</u>	<u>(42,205,805)</u>
Nonoperating Revenue (Expenses)					
State Appropriations	14,205,835	8,147,890	17,514,189	1,098,707	40,966,621
Investment Income	382,519	208,728	712,693	1,199,477	2,503,417
Interest on Capital Asset-Related Debt	(289,218)	(149,920)	(399,688)	(1,174,095)	(2,012,921)
Other Nonoperating Revenue (Expense)	5,268	(183,748)	(22,440)	(45,471)	(246,391)
	<u>14,304,404</u>	<u>8,022,950</u>	<u>17,804,754</u>	<u>1,078,618</u>	<u>41,210,726</u>
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	<u>(1,659,970)</u>	<u>548,024</u>	<u>240,131</u>	<u>(123,264)</u>	<u>(995,079)</u>
Capital Facilities Fees	-	-	-	1,396,144	1,396,144
Capital Contributions	150	7,195	72,102	-	79,447
Operating Transfers In (Out)	359,301	885,182	2,234,754	(3,479,237)	-
Capital Appropriations and Grants	<u>2,062,927</u>	<u>420,085</u>	<u>1,842,427</u>	<u>3,534,360</u>	<u>7,859,799</u>
Increase in Net Assets	762,408	1,860,486	4,389,414	1,328,003	8,340,311
Net Assets, Beginning of Year	<u>28,007,323</u>	<u>24,756,796</u>	<u>45,484,892</u>	<u>(5,531,594)</u>	<u>92,717,417</u>
Net Assets, End of Year	<u>\$ 28,769,731</u>	<u>\$ 26,617,282</u>	<u>\$ 49,874,306</u>	<u>\$ (4,203,591)</u>	<u>\$ 101,057,728</u>

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
June 30, 2007

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Activities					
Tuition and Fees	\$ 4,221,423	\$ 4,012,525	\$ 8,704,122	\$ -	\$ 16,938,070
Grants and Contracts	3,777,915	2,387,388	4,373,318	-	10,538,621
Payments to Suppliers	(8,167,517)	(4,087,629)	(8,926,672)	(234,763)	(21,416,581)
Payments for Utilities	(1,151,320)	(832,916)	(1,884,591)	-	(3,868,827)
Payments to Employees	(17,376,885)	(9,782,424)	(23,186,481)	(856,976)	(51,202,766)
Loans Issued to Students	(216,282)	-	(269,549)	-	(485,831)
Collections of Loans to Students	256,087	61,378	272,866	-	590,331
Sales and Services of Auxiliary Enterprises	4,226,008	1,484,989	5,271,658	-	10,982,655
Other Receipts (Payments)	21,495	(31,264)	222,002	(37,735)	174,498
	<u>(14,409,076)</u>	<u>(6,787,953)</u>	<u>(15,423,327)</u>	<u>(1,129,474)</u>	<u>(37,749,830)</u>
Noncapital Financing Activities					
State Appropriations	14,205,835	7,610,498	17,462,921	1,123,491	40,402,745
Grants and Contracts	23,625	(9,449)	40,015	-	54,191
Other Receipts (Payments)	5,266	(183,748)	-	-	(178,482)
	<u>14,234,726</u>	<u>7,417,301</u>	<u>17,502,936</u>	<u>1,123,491</u>	<u>40,278,454</u>
Capital and Related Financing Activities					
Receipt from State for Capital Purchases	2,062,927	420,085	2,389,704	3,534,360	8,407,076
Proceeds from Capital Debt	-	250,000	-	22,210,343	22,460,343
Purchase of Capital Assets	(2,376,106)	(1,434,583)	(4,810,179)	-	(8,620,868)
Principal Paid on Capital Debt	(305,000)	(100,000)	(335,000)	(2,370,000)	(3,110,000)
Interest Paid on Capital Debt	(278,621)	(148,447)	(381,358)	(803,057)	(1,611,483)
Capital Facilities Fees	-	-	-	1,424,819	1,424,819
Transfers Out	359,301	885,182	1,687,477	(2,394,497)	537,463
Other	(77,746)	-	-	(514,305)	(592,051)
Capital Contributions	150	7,195	72,102	-	79,447
	<u>(615,095)</u>	<u>(120,568)</u>	<u>(1,377,254)</u>	<u>21,087,663</u>	<u>18,974,746</u>
Investing Activities					
Purchase/sale of Investments	-	(430)	(1,094)	(14,160)	(15,684)
Investment Income	381,949	208,728	712,693	1,110,142	2,413,512
	<u>381,949</u>	<u>208,298</u>	<u>711,599</u>	<u>1,095,982</u>	<u>2,397,828</u>
Increase in Cash and Cash Equivalents	<u>(407,496)</u>	<u>717,078</u>	<u>1,413,954</u>	<u>22,177,662</u>	<u>23,901,198</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,579,238</u>	<u>4,260,673</u>	<u>12,686,042</u>	<u>2,901,421</u>	<u>26,427,374</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,171,742</u>	<u>\$ 4,977,751</u>	<u>\$ 14,099,996</u>	<u>\$ 25,079,083</u>	<u>\$ 50,328,572</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and Cash Equivalents	\$ 2,496,026	\$ 2,709,517	\$ 10,145,261	\$ 5,741	\$ 15,356,545
Restricted Cash and Cash Equivalents - Current	1,340,645	1,140,976	422,517	25,073,342	27,977,480
Restricted Cash and Cash Equivalents - Noncurrent	2,335,071	1,127,258	3,532,218	-	6,994,547
	<u>\$ 6,171,742</u>	<u>\$ 4,977,751</u>	<u>\$ 14,099,996</u>	<u>\$ 25,079,083</u>	<u>\$ 50,328,572</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
June 30, 2007

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities					
Operating Loss	\$(15,964,374)	\$ (7,474,926)	\$(17,564,623)	\$ (1,201,882)	\$(42,205,805)
Depreciation Expense	1,404,546	796,399	1,858,266	539	4,059,750
Changes in Operating Assets and Liabilities					
Receivables, Net	(61,895)	(51,846)	(34,830)	-	(148,571)
Inventories	24,508	3,039	(16,059)	-	11,488
Accounts Payable and Accrued Liabilities	149,839	(59,268)	326,505	24,164	441,240
Accrued Compensated Absences	54,455	(42,709)	31,422	47,705	90,873
Other Assets and Liabilities	(16,155)	41,358	(24,008)	-	1,195
Net Cash Used in Operating Activities	<u><u>\$ (14,409,076)</u></u>	<u><u>\$ (6,787,953)</u></u>	<u><u>\$ (15,423,327)</u></u>	<u><u>\$ (1,129,474)</u></u>	<u><u>\$ (37,749,830)</u></u>

Supplemental Cash Flows Information

Accounts Payable Incurred for Capital Asset Purchases	\$	-	\$	69,986	\$	669,153	\$	-	\$	739,139
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(Concluded)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2007 Expenditures
<i>U.S. Department of Education:</i>			
Student Financial Aid:			
Supplemental Educational Opportunity Grant		84.007	\$ 203,913
Federal Family Education Loan		84.032	16,649,167
Federal Work Study		84.033	445,440
Perkins Loan		84.038	3,528,351
Pell Grant		84.063	5,801,528
Federal Direct Student Loans (Direct Loan)		84.268	4,005,326
Academic Competitiveness Grants		84.375	248,456
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	<u>86,791</u>
Total Student Financial Aid			30,968,972
Higher Education			
Institutional Aid (Title III)		84.031A	4,935
Trio Student Support Services		84.042	469,870
Student Stride Program		84.042A	281,048
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	46,516
Fund for the Improvement of Postsecondary Educ.	Florida State University	84.116	5,660
Bilingual Education Professional Development	UNL	84.195	94,936
Professional Development Program/Indian Educ. DOE/UNL Indgns Rts Cntrct	UNL	84.299B	710
Mathematics & Science Partnerships	NE Dept. of Education	84.366	<u>3,294</u>
<i>Total U.S. Department of Education</i>			<u>31,875,941</u>
<i>U.S. Department of Interior</i>			
State Wildlife - Bighorn Sheep	NE Game & Parks	15.634	59,636
Migratory Bird Joint Ventures	NE Game & Parks	15.637	109
U.S. Geological Survey Research & Data Acq.	UNO (GEON only)	15.808	<u>6,305</u>
<i>Total U.S. Department of Interior</i>			<u>66,050</u>
<i>National Science Foundation:</i>			
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	29,216
Education & Human Resources	NE Epscor/UNL	47.076	<u>3,985</u>
<i>Total National Science Foundation</i>			<u>33,201</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, 2007

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2007 Expenditures
<i>U.S. Department of Agriculture</i>			
Forest Service Assessment	US Forest Service	50.99H	3,200
Forest Service-Hudson Meng	US Forest Service	Cost Share Agree	<u>38,354</u>
<i>Total U.S. Department of Agriculture</i>			<u>41,554</u>
<i>U.S. Small Business Administration:</i>			
Small Business Development Center	UNO	59.037	<u>77,482</u>
<i>U.S. Office of Environmental Education</i>			
Environmental Education - EPA Steam Stewardship		66.951	<u>5,001</u>
<i>U.S. Department of Health & Human Services</i>			
Center for Disease Control & Prevention -West Nile Virus Grant	NE Health & Human	93.283	15,434
National Center for Research Resources	UNMC	93.389	<u>128,691</u>
<i>Total U.S. Department of Health & Human Services</i>			<u>144,125</u>
<i>Corporation For National & Community Service</i>			
Learn & Serve America School & Community Based Programs	UNL	94.004	12,577
Learn & Serve America Higher Education	UNL	94.005	<u>32,398</u>
<i>Total Corporation for National & Community Service</i>			<u>44,975</u>
Total Federal Awards			<u>\$ 32,288,329</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

For the Fiscal Year Ended June 30, 2007

- 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 \$3,075,231, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received. The Perkins Loan balance for the NSCS for the fiscal year ended June 30, 2007, was \$2,945,367.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2007 Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid:						
Supplemental Educational Opportunity Grant		84.007	\$ 83,503	\$ 46,319	\$ 74,091	\$ 203,913
Federal Family Education Loan		84.032	9,988,337	5,644,720	1,016,110	16,649,167
Federal Work Study		84.033	111,470	97,650	236,320	445,440
Perkins Loan		84.038	1,769,664	275,216	1,483,471	3,528,351
Pell Grant		84.063	2,627,696	1,305,910	1,867,922	5,801,528
Federal Direct Student Loans (Direct Loan)		84.268	-	-	4,005,326	4,005,326
Academic Competitiveness Grants		84.375	135,151	49,650	63,655	248,456
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	30,116	28,000	28,675	86,791
Total Student Financial Aid			14,745,937	7,447,465	8,775,570	30,968,972
Higher Education						
Institutional Aid (Title III)		84.031A	-	-	4,935	4,935
Trio Student Support Services		84.042	-	242,378	227,492	469,870
Student Stride Program		84.042A	281,048	-	-	281,048
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	21,363	10,629	14,524	46,516
Fund for the Improvement of Postsecondary Educ	Florida State University	84.116	-	-	5,660	5,660
Bilingual Education Professional Development	UNL	84.195	94,936	-	-	94,936
Professional Development Program/Indian Educ. DOE/UNL Indgns Rts Cntrct	UNL	84.299B	710	-	-	710
Mathematics & Science Partnerships	NE Dept. of Education	84.366	3,294	-	-	3,294
<i>Total U.S. Department of Education</i>			15,147,288	7,700,472	9,028,181	31,875,941

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2007 Expenditures
<i>U.S. Department of Interior</i>						
State Wildlife - Bighorn Sheep	NE Game & Parks	15.634	-	-	59,636	59,636
Migratory Bird Joint Ventures	NE Game & Parks	15.637	-	-	109	109
U.S. Geological Survey Research & Data Acq.	UNO (GEON only)	15.808	-	-	6,305	6,305
<i>Total U.S. Department of Interior</i>			-	-	66,050	66,050
<i>National Science Foundation:</i>						
National Science Foundation						
Biological Sciences	Academy of Natural Sciences of Philadelphia	47.074	-	29,216	-	29,216
Education & Human Resources	NE Epscor/UNL	47.076	2,260	-	1,725	3,985
<i>Total National Science Foundation</i>			2,260	29,216	1,725	33,201
<i>U.S. Department of Agriculture</i>						
Forest Service Assessment	US Forest Service	50.99H	-	-	3,200	3,200
Forest Service-Hudson Meng	US Forest Service	Cost Share Agree	-	-	38,354	38,354
<i>Total U.S. Department of Agriculture</i>			-	-	41,554	41,554
<i>U.S. Small Business Administration:</i>						
Small Business Development Center	UNO	59.037	44,224	-	33,258	77,482
<i>U.S. Office of Environmental Education</i>						
Environmental Education - EPA Steam Stewardship		66.951	-	-	5,001	5,001
<i>U.S. Department of Health & Human Services</i>						
Center for Disease Control & Prevention -West Nile Virus Grant	NE Health & Human	93.283	-	-	15,434	15,434
National Center for Research Resources	UNMC	93.389	121,322	-	7,369	128,691
<i>Total U.S. Department of Health & Human Services</i>			121,322	-	22,803	144,125

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007

Federal Agency	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2007
<i>Corporation For National & Community Service</i>						
Learn & Serve America School & Community Based Programs	UNL	94.004	3,075	-	9,502	12,577
Learn & Serve America Higher Education	UNL	94.005	21,639	10,759	-	32,398
<i>Total Corporation For National & Community Service</i>			24,714	10,759	9,502	44,975
Total Federal Awards			\$ 15,339,808	\$ 7,740,447	\$ 9,208,074	\$ 32,288,329

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the accompanying financial statements of the business-type activities and discreetly presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska), as of and for the year ended June 30, 2007, which collectively comprise the Nebraska State College System's basic financial statements and have issued our report thereon dated December 10, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the NSCS Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation, as described in our report on the Nebraska State College System's financial statements. The financial statements of the NSCS Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska State College System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska State College System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska State College System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency described in the Schedule of Findings and Questioned Costs of the report to be a significant deficiency in internal control over financial reporting: Finding #07-02 (IT Segregation of Duties - Peru State College, Wayne State College, and Chadron State College).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska State College System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State College System'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*.

We also noted certain additional items that we reported to management of the Nebraska State College System in a separate letter dated December 10, 2007.

The Nebraska State College System's response to the findings identified in our audit are described in the Comments Section of the report. We did not audit the Nebraska State College System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the NSCS, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

December 10, 2007



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Nebraska State College System (NSCS), a component unit of the State of Nebraska, 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 each of its major Federal programs for the year ended June 30, 2007. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely presented component units of the NSCS. We also did not audit compliance with the above requirements, if applicable, for the Revenue and Refunding Bond Funds and Facilities Corporation. 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 each of its major Federal programs is the responsibility of 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 of the NSCS's compliance with those requirements.

As described in item #07-01 in the accompanying schedule of findings and questioned costs, the NSCS did not comply with requirements regarding Special Tests and Provision Due Diligence that are applicable to the Student Financial Aid Cluster. Compliance with such requirements is necessary, in our opinion, for the NSCS to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

Internal Control Over Compliance

The management of the NSCS is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the NSCS's internal control over compliance.

Compliance with Federal Perkins Loan program requirements governing reporting and program performance (due diligence and loan repayment) are the shared responsibility of the NSCS, Affiliated Computer Services, Inc. (ACS), and University Accounting Service (UAS) service organizations. Internal control over compliance relating to such functions performed by ACS and UAS were reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Services*. Copies of the service organizations' reports have been furnished to us. However, the scope of our work did not extend to internal control maintained at ACS and UAS.

Our consideration of internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the NSCS's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings #07-01 and #07-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The NSCS's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit NSCS's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the NSCS, the appropriate Federal and regulatory agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 10, 2007


Assistant Deputy Auditor

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2007

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 significant deficiency 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 #07-02; a finding 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. Significant deficiencies in internal control over the major program were disclosed by the audit of the NSCS's Federal awards and are included in the Schedule of Findings and Questioned Costs in Part III, as Finding #07-01 and Finding #07-02; neither of which are considered material weaknesses.
- e. Type of report issued on compliance for major program: Qualified.
- f. The following are considered major programs:

Student Financial Aid Cluster
CFDA #84.007 Supplemental Educational Opportunity Grant
CFDA #84.032 Federal Family Education Loan
CFDA #84.033 Federal Work Study
CFDA #84.038 Perkins Loan
CFDA #84.063 Pell Grant
CFDA #84.268 Federal Direct Student Loans (Direct Loan)
CFDA #84.375 Academic Competitiveness Grants
CFDA #84.376 National Science and Mathematics Access to Retain Talent (SMART) Grants
- g. The threshold used to distinguish between Type A and Type B programs: \$968,650
- h. The NSCS did qualify as a low-risk auditee.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Finding #07-02

IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College

Control Objectives for Information and related Technology 4.1 (COBIT) – control objective PO4.11 (Segregation of Duties) states an organization should “Implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process and to make sure that personnel are performing only authorized duties relevant to their respective jobs and positions.” COBIT defines segregation/separation of duties as “A basic internal control that prevents or detects errors and irregularities by assigning to separate individual’s responsibility for initiating and recording transactions and custody of assets to separate individuals. Commonly used in large IT organizations so that no single person is in a position to introduce fraudulent or malicious code without detection.”

At all three campuses it was noted that at least one individual who performed programmer duties, was also the Student Information System (SIS) database administrator (DBA), and had access to live data for the application tested. Each of these individuals was in a position to move code into and out of the production environment, make coding changes, and make changes to/administrate the supporting database. Both Wayne and Peru State Colleges implemented procedures such as the reviewing of audit logs which record when a programmer logs onto the application and records any changes the programmer makes during the fiscal year to compensate for programmer access to live data. However, this compensating control is negated by the fact that the same individual making programming changes also has the ability to add, change, and delete data contained in the database, including audit logs.

Without the proper controls to ensure only valid changes are made, there is an increased risk unauthorized production changes would occur and go undetected.

This was a prior audit comment in NSCS’s past four management letters.

We continue to recommend the Colleges examine programmer functions and/or responsibilities in an effort to provide a proper segregation of duties. Part of such examination should consider assigning individuals separate from programming functions and/or responsibilities to serve as database administrators. As always, we recognize the cost of providing a segregation of functions must be balanced with the benefits gained.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

III. Findings and Questioned Costs Relating to Federal Awards:

Finding #07-01: Perkins Loan Grace Period Contacts – Peru State College, Wayne State College, and Chadron State College

Program: CFDA 84.038 Federal Perkins Loan Program - Special Tests and Provisions

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR Section 674.42 (c) regarding due diligence contacts with Perkins loan borrowers requires an exit interview contact with the borrower as well as a minimum of three separate contacts during a borrower's initial and post-deferment grace periods. Colleges must contact borrowers for the first time 90 days after the commencement of a grace period reminding them of their responsibility to comply with loan terms and provide information consisting of the total outstanding loan amount including principal and interest accruing over the remaining life of the loan as well as the date and amount of the next required payment. Colleges must contact borrowers for the second time 150 days after the commencement of a grace period notifying borrowers of the date and amount of their first required payment. Colleges must contact borrowers for a third time 240 days after the commencement of the grace period informing them of the date and amount of the first required payment. Good internal control requires adequate supporting documentation be retained and/or otherwise made available for audit, to support the College's compliance with all applicable Federal regulations.

Condition: Colleges did not document Perkins loans borrowers having been consistently contacted three separate, distinct times during borrowers' initial and post-deferment grace periods.

Questioned Costs: None

Context:

- *Peru State College:* 4 of 7 defaulted Perkins loans tested did not have evidence of all three required grace period letters being sent prior to the commencement of borrower loan repayment.
- *Wayne State College:* 5 of 25 defaulted Perkins loans tested did not have evidence of all three required grace period letters being sent prior to the commencement of borrower loan repayment.
- *Chadron State College:* 3 of 13 defaulted Perkins loans tested did not have evidence of all three required grace period letters being sent prior to the commencement of borrower loan repayment.

Cause: In most instances borrowers had entered their grace period without the Colleges' prior knowledge and by the time the College became aware of the borrower's withdrawal

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

or failure to return, the timing of the 90 day, and in some instances the 150 day, notice had passed. At that point neither the Colleges nor their third party processors sent belated 90 and/or 150 day notices but did send all subsequently required notices.

Effect: Borrowers who are not being adequately notified during their grace period of the date and amount of their first required payment may not begin making payments in a timely manner which may translate into an increased risk of loan delinquency. In addition, lack of documented grace period contacts may lead borrowers to dispute their repayment timing.

Recommendation: We recommend the Colleges implement procedures to ensure compliance with Federal regulations which require three separate, distinct contacts with Perkins loan borrowers during their initial and post-deferment grace periods. In doing so we further recommend the Colleges consult with the U.S. Department of Education for specific remedy guidance for missed required contacts when a grace period notification deadline has elapsed without the Colleges' knowledge.

Management's Response: As noted in the report comment, in most instances the colleges were not aware that the borrower had entered their grace period. Often, borrowers left after the spring term without any indication that they would not return in the fall. At the time the colleges became aware that the borrower did not return to college in the fall, they began the notification process. Also, in many cases, the borrowers were provided with three separate, distinct contacts, but those contacts may not have met the specific notice requirements of 90 and 150 days. Each of the colleges uses a private service provider to provide the required notices.

Chadron State College indicates that notices may have been sent by the service provider but documents used to test compliance did not reflect those notices. They will be working with the service provider to review documentation.

Wayne State College has changed the exit counseling notification letter to include the verbiage of the 90-day grace letter; and has implemented additional procedures to check for borrowers with less than 12 hours. Additional checking is also done after the spring term to assure that no notification has been received of the borrower's intent not to return in the fall.

Peru State College has notified the Department of Education through the FISAP process of its intention to opt out of the Perkins Loan Program effective with the 2007-08 fiscal year.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Corrective Action Plan: Chadron State and Wayne State Colleges will work with the Department of Education and request guidance on the resolution of this comment. The Colleges will also work with their private service providers to implement the resolution provided.

For Peru State College, all Perkins Loans will be assigned to the Federal Government by the end of the fiscal 2007-08.

Contact: Chadron State: Dale Grant, VP for Administration and Finance (308) 432-6202. Peru State: Linda Jacobsen, VP for Administration and Finance (402) 842-2224. Wayne State: Beth Kroger, VP for Administration and Finance (402) 375-7220

Anticipated Completion Date: At Chadron State and Wayne State, corrective action will be taken once guidance is provided by the Department of Education. Peru State anticipates elimination of their Perkins Loan Program by the end of fiscal 2007-08.

Finding #07-02: IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College

Program: Various

Federal Grantor Agency: U.S. Department of Education

Summary: The audit finding included in Part II of this report regarding IT Segregation of Duties relates to both the financial statements and Federal awards. This finding relates to all Federal programs awarded to the Nebraska State College System. The major program is listed in Part I of this report.

Management's Response: COBIT's guidelines indicate that the guidelines commonly used in large IT organizations. The size of the existing programming staff at the colleges does not allow for compliance with this standard. Compensating controls through functional units in the colleges are in place to review and balance reports from the system.

The Nebraska State College System (NSCS) is currently in the process of selecting a vendor for a new software system. The NSCS has requested deficit funding from the State of Nebraska for the new information system and for additional staffing to support the system. The request considers database administration concerns. If funded, such considerations would allow for improvements in regard to separation of duties and responsibilities.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Corrective Action Plan: The colleges continue to review and revise compensating controls in college departments. The NSCS has been notified that existing software will no longer be supported after December 31, 2011. By that time, a new system will have to be in place that may allow for improved segregation of duties. If funding is provided for database administration considerations, that will further improve the opportunity for improved segregation of duties.

Contact: Chadron State: Dale Grant, VP for Administration and Finance (308) 432-6202. Peru State: Linda Jacobsen, VP for Administration and Finance (402) 842-2224. Wayne State: Beth Kroger, VP for Administration and Finance (402) 375-7220

Anticipated Completion Date: The NSCS anticipates that improvements will be made with the implementation of the new software system by December 31, 2011.

IV. Summary Schedule of Prior Year Audit Findings: None

o

**MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM
JULY 1, 2006 THROUGH JUNE 30, 2007**

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on December 11, 2007



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December 10, 2007

Mr. Stanley Carpenter, Chancellor
Nebraska State College System
Board of Trustees
P.O. Box 94605
Lincoln, NE 68509-4605

Dear Mr. Carpenter:

We have audited the basic financial statements of the Nebraska State College System (NSCS) for the fiscal year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We have also audited the NSCS's compliance with requirements applicable to major federal award programs and have issued our report thereon dated December 10, 2007. In planning and performing our audit, we considered the NSCS's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the NSCS and to report on internal control in accordance with Office of Management and Budget (OMB) Circular A-133 and not to provide assurance on internal control. Internal control and compliance matters required by *Government Auditing Standards* and OMB Circular A-133 were reported in the above reports. The matters disclosed in this letter are not required to be reported in the above reports but are matters for NSCS's consideration. We have not considered internal control since the date of our reports.

As noted above, in connection with our audit, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented below for your consideration. These comments and recommendations, which have been discussed with appropriate individuals at the NSCS Office, Chadron State College (CSC), Peru State College (PSC), and Wayne State College (WSC), are intended to improve the internal control over financial reporting, ensure compliance, or result in increased operational efficiencies.

Our consideration of internal controls and compliance included a review of prior year comments and recommendations. To the extent the situations which prompted the recommendations in the prior year still exist, they have been incorporated into the comments presented for the current year. All other prior year comments and recommendations have been satisfactorily resolved.

More detailed information on our comments and recommendations is provided hereafter. It should be noted this letter is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Also included in this letter is a listing of Governmental Accounting Standards Board (GASB) Statements which may have an effect on future financial statements of the NSCS. These GASB Statements are provided for the NSCS's future consideration.

1. Academic Competitiveness Grant (ACG) Eligibility - Chadron State College

34 CFR Section 691.15 states that to be eligible for an Academic Competitiveness Grant (ACG) a student must be in their first or second academic year of an eligible program. In addition, 34 CFR Section 691.62 establishes the maximum ACG award as up to \$750 for the first academic year of a student's eligible program, and up to \$1,300 for the second academic year of a student's eligible program. Lastly, good internal control requires adequate training, education, and oversight of student financial aid packaging to ensure compliance with aid requirements.

Two of three students tested who received an ACG award were ineligible for such awards. In both instances, CSC had posted \$1,300 second-year ACG grant awards (\$650 for the Fall 2006 semester and \$650 for the Spring 2007 semester) to the students' accounts despite the students having entered their third academic year at the start of the Spring 2007 semester; a point at which they would no longer have been eligible for a second-year ACG grant award. Subsequent to audit identification of these exceptions, CSC's Financial Aid staff promptly adjusted both students' 2006-2007 financial aid packages so that neither student would be over-awarded aid.

Following this issue being brought to their attention by the auditors, the CSC's Financial Aid staff reviewed all 26 second-year Spring 2007 ACG grant awards and determined a total of 15, or approximately 58% of students who had received ACG awards were ineligible based on their academic year completion. The CSC's Financial Aid staff indicated the involved students' 2006-2007 financial aid packages were promptly adjusted so no students would be over-awarded aid.

When the CSC does not award student financial aid in compliance with Federal grant requirements there is an increased risk of aid disbursements to ineligible students as well as aid over-award.

We recommend CSC strictly enforce financial aid eligibility criteria as set forth in Federal regulations. We further recommend when implementing new student financial programs CSC have more than one individual involved in the process to ensure compliance with Federal student financial aid requirements.

NSCS's Response: Chadron State College agrees with the APA that further training and oversight of this grant is necessary. The College has already implemented additional procedures to insure that this problem does not occur again.

2. Perkins Exit Interviews and Repayment Plan - Chadron State College

34 CFR Section 674.42 (a) requires colleges to disclose to borrowers a repayment schedule for their Perkins loans including the date the first installment is due and the number, amount, and frequency of required payments. In addition, 34 CFR Section 674.42 (b), regarding exit interviews, requires schools to conduct exit counseling with each borrower in person, by audiovisual presentation or by interactive electronic means. If borrowers withdraw from school without the school's prior knowledge or fail to complete an exit counseling session as required, the school must provide exit counseling through either interactive electronic means or by mailing

counseling materials to the borrower at their last known address. Lastly, 34 CFR Section 674.42 (b) requires colleges to maintain documentation substantiating their compliance with these exit requirements for each borrower.

Testing of 13 Perkins loan borrowers in default and 11 Perkins loan borrowers entering repayment status noted the following:

- Three Perkins loan borrowers in default did not have adequate documentation of CSC having conducted or attempted to conduct borrower exit interviews; and
- One borrower had signed a \$2,400 repayment plan when the amount actually owed totaled \$2,700.

Noncompliance with the many aspects of Perkins loan due diligence, including adequate documentation of borrower exit interviews as well as signing of complete and accurate repayment plans by borrowers, increases the risk of delinquent loan amounts.

We recommend CSC adequately document exit interviews, including those attempted by electronic means or mailing, for all Perkins borrowers. We also recommend CSC implement procedures to ensure all Perkins loan repayment plans signed by borrowers are complete and accurate.

NSCS's Response: Federal guidelines do require the College to maintain documentation substantiating contact of a student for an exit interview; however, there is no guidance as to what constitutes adequate documentation. The College will continue to work with the APA to satisfy concerns on this topic. Additional review of repayment plans will be conducted to reduce the chance of repeating the signing of incorrect documents.

3. NIS Leave Balances - Chadron State College, System Office

Nebraska State Accounting Manual, AM-005, Unused Leave Recorded in NIS Policy, Section 34 states, "State Accounting has adopted the Nebraska Information System (NIS) to record all earned but not used sick and vacation leave and compensatory time" State Accounting needs this data in the NIS system in order to verify the dollar amount of earned but unpaid days when employees leave State employment. If an agency does not input leave data into NIS, it is the State of Nebraska's policy to consider such liability not to exist. As a result, when any employee leaves State government, no payment is to be allowed for claimed unused vacation, sick, or compensatory leave time until proper accounting for such leave is provided.

While employee vacation, sick, and compensatory leave activity for both the NSCS Office and CSC employees was recorded on NIS, it was not complete and accurate. Instead of using NIS as the system of origination for maintaining true employee leave balances, both the NSCS Office and CSC maintained their own separate, comprehensive leave records which were used for financial reporting purposes. Management of the NSCS Office and CSC indicated these separate leave records were necessary due to technical issues with NIS not recording leave activity completely or accurately for their employees.

The use of dual employee leave records increases the risk of errors and/or omissions. In addition, inaccurate NIS balances could lead to employee confusion when reviewing their pay stubs on which the NIS leave balances are reported.

We recommend the NSCS Office and CSC work with the Nebraska Department of Administrative Services to resolve any technical issues they may have with being able to completely and accurately record employee leave activity on NIS.

NSCS's Response: The accrual of leave balances is accomplished by maintaining a set of records separate from the NIS System. Employees are informed that the balances reflected on their pay stubs are not correct. Leave reports are generated from the separate system and are provided to employees periodically. The accruals recorded in the audit are done from the separate system. The System Office has requested the establishment of a new leave table that will allow all System Office employees to accurately accrue leave in NIS. Currently, however, NIS does not properly accrue leave balances for certain groups of employees at the Colleges and the manual override of incorrect data is time-intensive. It is very likely that this issue will be resolved with the implementation of new human resources/payroll software by December 31, 2011.

4. NIS Security - Chadron State College

Good internal control requires functional accounting system access only be assigned to employees with a logical, work-related need for such access. For example, fixed asset or accounts payable functionality should be limited to employees whose work responsibilities include those functions.

During our review of NIS Security, we noted the following:

- Two individuals involved in the payroll process have functional NIS Accounts Payable access despite not being involved in the accounts payable process;
- Six individuals have functional NIS Fixed Asset access despite only one CSC employee being directly involved in the fixed asset process; and
- Eight individuals have functional NIS Accounts Receivable access despite only four individuals being directly involved in the accounts receivable process.

When individuals are assigned functional accounting system access without a logical, work-related need for such access, there is an increased risk of error.

We recommend CSC periodically review its NIS security to ensure functional accounting system access is only assigned to individuals with a logical, work-related need for such access.

NSCS's Response: Through Chadron State College's Pandemic Flu planning process, recommendations are made to increase cross training and access to deal with the expected high rate of illness (expect up to 40% absenteeism). The flexibility needs to remain at the college level to determine what constitutes sufficient cross training and backup for any position. However, per this recommendation, Chadron State will review NIS Security periodically.

In addition to the above comments and recommendations we also noted two other internal control and compliance matters, Perkins Loan Grace Period Contacts and IT Segregation of Duties, which were reported in the audit reports Schedule of Findings and Questioned Costs.

GASB Standards for the NSCS's Future Consideration

The NSCS should review and determine the applicability of the following GASB Statements which may have an effect on the financial statements of the NSCS for the year ending June 30, 2008.

GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after December 15, 2006. This Statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and OPEB plans.

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, 2007. 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.

GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This Statement established criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues.

GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB has issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27*, effective for fiscal years beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and required supplementary information (RSI) contain information resulting from actuarial valuations as of June 15, 2007, or later. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as RSI by pension plans and by employers that provide pension benefits.

GASB has also issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009, with provisions for this statement generally required to be applied retroactively. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization and thereby enhance the comparability of the accounting and financial reporting of intangible assets among state and local governments.

This letter is intended solely for the information and use of management, the Board of Trustees, others within the Nebraska State College System, the appropriate Federal and regulatory awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and thank all of the Nebraska State College System employees for the cooperation and courtesy extended to us during the course of the audit.

Sincerely,

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive, slightly slanted style.

Don Dunlap
Assistant State Auditor