

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

**JULY 1, 2005 THROUGH JUNE 30, 2006**

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**Issued on December 12, 2006**

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

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# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## INDEPENDENT AUDITORS' REPORT

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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, 2006, 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, 2006, December 31, 2005, and June 30, 2006, respectively, and the related Statements of Activity and Cash Flows for the years then ended. Those statements are presented separately on pages 12 through 14, 16 through 18, and 21 through 23. Those statements were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Chadron State, Peru State, and Wayne State Foundations is based solely on the reports of these auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 business-type activities and the discretely presented component units of NSCS, as of June 30, 2006, and December 31, 2005, (Peru State Foundation) and the respective changes in their financial position and their 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 November 20, 2006, 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 considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of NSCS management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 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 as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

November 20, 2006

  
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, 2006. The analysis has been prepared by management of the System and is intended to be read with the financial statements and the related footnotes that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

**FINANCIAL ANALYSIS OF THE NSCS AS A WHOLE**

The NSCS includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), and the System Office in Lincoln. The designation as a single entity reflects the general governing authority of the Board of Trustees, including the authority to distribute the State appropriation among the colleges and the System Office.

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

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

(Continued)

The audit for the fiscal year ended June 30, 2006, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSCS to finance building projects of the Board of Trustees of the Nebraska State Colleges on any of its campuses, through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees serve as the officers of the Facilities Corporation. Recent bonds issued by the Facilities Corporation include those authorized under LB 1100, passed in 1998, and LB 1, passed in 2001. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSCS Office, while the assets acquired as the result of renovations and new construction appear as assets at the individual colleges.

Audit information from the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation is included in the report as well. With implementation of GASB Statement 39, the foundations of the colleges have been deemed to be component units of the NSCS. Those foundations' financial statements are presented separately on pages 12 through 14, 16 through 18, and 21 through 23 of this report.

	<b>Primary Government</b>	
	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>	\$ 23,150,100	\$ 19,655,531
<b>Noncurrent Assets</b>		
Capital Assets, Net	96,684,119	93,910,635
Other Noncurrent Assets	10,737,072	14,308,153
Total Assets	130,571,291	127,874,319
<b>Current Liabilities</b>	10,601,186	10,062,653
<b>Noncurrent Liabilities</b>	27,252,688	30,290,110
Total Liabilities	37,853,874	40,352,763
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	67,482,612	61,528,695
Restricted	16,030,981	17,396,489
Unrestricted	9,203,824	8,596,372
Total Net Assets	\$ 92,717,417	\$ 87,521,556

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

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

(Continued)

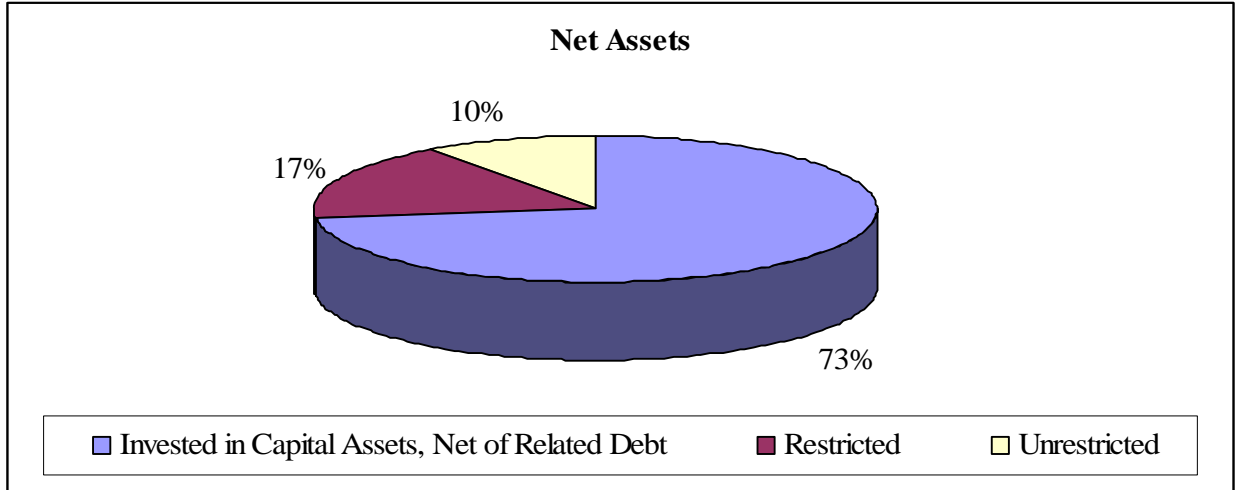
	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Tuition and Fees, Net	\$ 15,713,468	\$ 15,351,201
Federal and State Grants and Contracts	9,222,408	10,344,677
Private Grants and Contracts	1,003,635	1,297,235
Auxiliary Enterprises, Net	10,028,053	9,275,782
Other Operating Revenues	<u>398,607</u>	<u>617,643</u>
 Total Operating Revenues	 36,366,171	 36,886,538
 <b>Operating Expenses</b>	 75,440,188	 70,995,524
 <b>Operating Loss</b>	 (39,074,017)	 (34,108,986)
 <b>Nonoperating Revenues (Expenses)</b>		
State Appropriations	38,561,335	35,224,800
Investment Income	1,191,415	988,913
Interest on Capital Asset-Related Debt	(1,503,697)	(1,471,083)
Other Nonoperating (Expenses)	<u>122,449</u>	<u>(33,103)</u>
 Net Nonoperating Revenues	 38,371,502	 34,709,527
 <b>Gain (Loss) before Other Revenues and Transfers</b>	 (702,515)	 600,541
 <b>Capital Appropriations and Grants</b>	 4,464,523	 4,270,078
 <b>Capital Contributions</b>	 335,126	 98,544
 <b>Capital Facilities Fee</b>	 1,098,727	 913,327
	<hr/>	<hr/>
<b>Increase in Net Assets</b>	5,195,861	5,882,490
 <b>Net Assets, Beginning of Year</b>	 <u>87,521,556</u>	 <u>81,639,066</u>
 <b>Net Assets, End of Year</b>	 <u>\$ 92,717,417</u>	 <u>\$ 87,521,556</u>

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

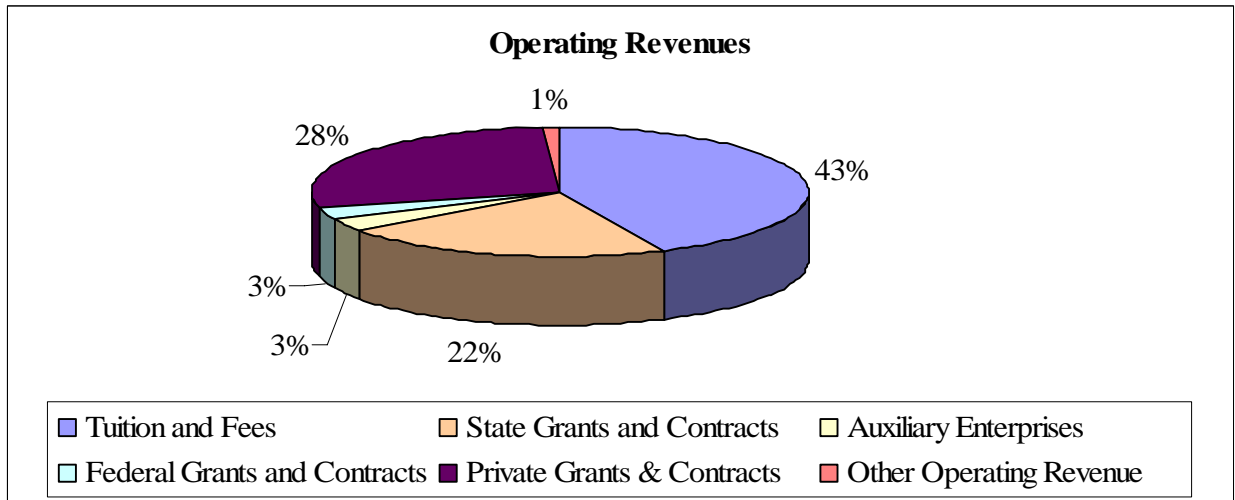
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
(Continued)

**CHANGES IN NET ASSETS**

At June 30, 2006, the NSCS had net assets of \$92.7 million, an increase of \$5.2 million or 5.9% over 2005. The net assets were comprised of Unrestricted - \$9.2 million; Restricted - \$16.0 million, and Invested in Capital Assets, Net of Related Debt - \$67.5 million.



The operating revenues were \$36.4 million, compared to \$36.9 million in 2005, a 1.4% decrease. Operating revenues include \$15.7 million in tuition and fees; Federal and State grants and contracts of \$9.2 million; private grants and contracts of \$1.0 million, auxiliary enterprises (net) of \$10 million, and other operating revenues of \$.4 million.

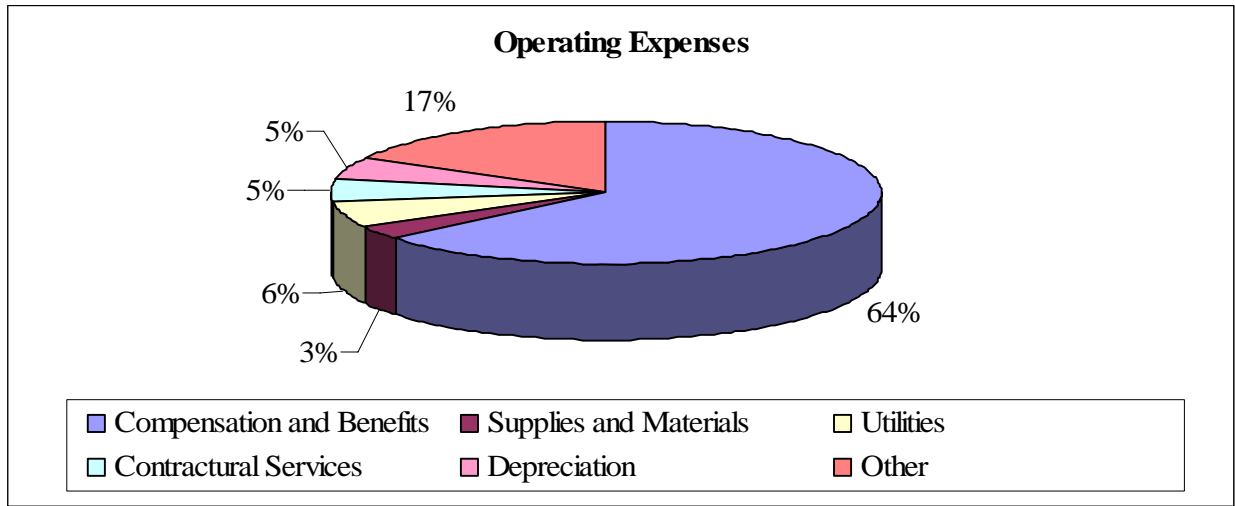




NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

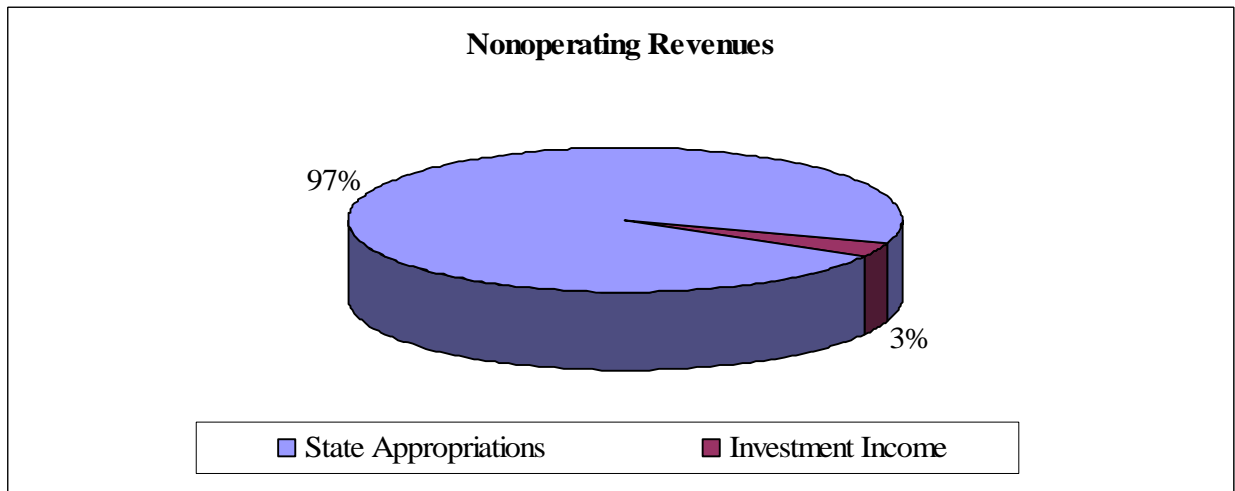
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
(Continued)

Operating expenses for the year ended June 30, 2006, amounted to \$75.4 million, compared to \$71 million in 2005. Compensation and benefits accounted for \$48.4 million, or 64.2% of the total; contractual services were \$2.5 million; supplies and materials, \$4.3 million; scholarships and fellowships, \$0.7 million; depreciation, \$3.7 million; utilities, \$3.6 million; repairs and maintenance, \$1.7 million; communications, \$0.9 million; food service, \$3.3 million; and other operating expenses, \$6.2 million.



The current year operating loss amounted to \$39.1 million, compared to an operating loss in 2005 of \$34.1 million.

Nonoperating revenues consist primarily of State appropriations and investment income.



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

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

(Continued)

The most significant changes from the fiscal year ended June 30, 2005, to the fiscal year ended June 30, 2006, include a shift in restricted investments from noncurrent to current assets as investment maturity dates near for bond repayments. Noncurrent liabilities are decreasing as additional bonds mature and are repaid. Investment in plant has increased as many capital construction projects related to current bond issues are at or nearing completion. A total of \$3 million in long-term debt was paid. Tuition and fee income increased by \$0.36 million (2.4%) related to an increase in tuition rates. Federal and State Grants and Contracts were \$1.1 million less than in fiscal 2004-2005. Auxiliary Enterprise revenues were up \$0.75 million, or 8.1% 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 18.8%. Nonoperating revenues increased, with a 9.5% increase in state appropriations, a 20.5% increase in investment income. Operating expenses for the year ended June 30, 2006, increased by \$4.4 million, or 6.3%. Approximately \$3.7 million or 83.5% 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 a 9.6% increase in premiums for 2005-2006. Utility costs increased 17.6%.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

As of June 30, 2006, the NSCS had recorded \$154.2 million in gross capital assets. During the fiscal year ended June 30, 2006, the investment in buildings and improvements increased by \$7.7 million; the investment in infrastructure increased by \$0.7 million; furniture, fixtures, and equipment increased by \$0.4 million; library materials increased by \$0.3 million; art increased by \$0.06 million; and construction in progress decreased by \$3 million. At the end of the fiscal year, the NSCS had \$57.5 million in accumulated depreciation that left \$96.7 million in net capital assets.

At the end of the fiscal year, the NSCS had \$32 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$29.5 million and \$2.3 million in accrued compensated absences. No new long-term debt was issued during the year, and the obligation was reduced by \$3 million.

Important capital improvements to the NSCS facilities continued through the fiscal year, with funding from State allocations, bonding, student fees, private funds, Federal and State grants, and revenue bond funds. The Administration Building renovation at Peru State College was completed. This renovation includes new heating, ventilating, and air conditioning and a total interior make-over. Sparks Hall at Chadron State College is currently under renovation. This project will convert the building to administrative offices for the campus. At Wayne State College, a piping replacement project was completed at Bowen Hall and an addition is under construction to the Carhart Science building for an elevator, stair tower, and ADA restrooms. 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.

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

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

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

The funding picture was improved for the NSCS for the year ending June 30, 2006. The appropriation was increased 9.5% over the previous year. For fiscal year 2006-2007, 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 2006-2007 is increased an additional 6%.

Enrollment at the State colleges increased by 1% in 2005-2006, and fall enrollments are slightly higher for 2006-2007. 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. A proposed new center will address a recommendation of the Legislature's LR 174 Committee to attract more students to Nebraska and educate them here, thus increasing the workforce and improving economic development.

The NSCS has completed a number of renovations to classroom and residential facilities, which continue to make the campuses attractive to both new and current students. 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 fourteen 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 2006-2007, \$400,000 in 2007-2008, \$600,000 in 2008-2009, 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. Initial projects approved by the Board of Trustees include:

Chadron Academic/Administration Building Renovation	\$ 4,681,357
Peru Emergency Power Generator	802,500
Peru Al Wheeler Activity Center Bleachers Replacement	167,990
Peru Al Wheeler Activity Center Renovation/Addition	4,846,933
Wayne Campus Services Building Renovation/Addition	4,981,587
Wayne Memorial Stadium/Rice Auditorium Lower Level Renovation	<u>3,610,671</u>
	\$19,091,038

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

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2006

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 14,439,761
Restricted Cash and Cash Equivalents	5,236,694
Investments Held by Trustee	1,447,128
Accounts Receivable, Net of Allowance	496,475
State Grants and Appropriations Receivable	388,273
Other Receivables	167,516
Inventories	167,497
Loans to Students, Net	593,816
Prepaid Expenses	210,835
Deposits with Vendors	2,105

Total Current Assets	23,150,100
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**Noncurrent Assets**

Restricted Cash and Cash Equivalents	6,750,919
Restricted Investments Held by Trustee	1,420,419
Investment Income Receivable	12,340
Loans to Students, Net	2,169,995
Capital Assets, Net	96,684,119
Deferred Bond Issue Costs, Net	383,399

Total Noncurrent Assets	107,421,191
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Total Assets	130,571,291
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**Liabilities**

**Current Liabilities**

Accounts Payable and Accrued Liabilities	4,637,523
Accrued Compensated Absences	1,563,372
Other Liabilities	26,965
Deferred Revenue	308,695
Interest Payable	574,339
Long-term Debt - Current Portion	3,110,000
Deposits Held in Custody for Others	380,292

Total Current Liabilities	10,601,186
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**Noncurrent Liabilities**

Accrued Compensated Absences	685,569
Unamortized Bond Premium	69,906
Other Noncurrent Liabilities	92,213
Long-term Debt	26,405,000

Total Noncurrent Liabilities	27,252,688
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Total Liabilities	37,853,874
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(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2006

<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	67,482,612
Restricted for	
Expendable	
Loans	3,128,120
Debt Service	10,367,668
Other	2,535,193
Unrestricted	<u>9,203,824</u>
 Total Net Assets	 <u><u>\$ 92,717,417</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, 2006

ASSETS	
Cash and Equivalents - Unrestricted	\$ 493,337
Cash and Equivalents - Restricted	93,136
Investments	7,910,407
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$27,034 for 2006	134,439
In-Kind Receivables	17,586
Other Assets	2,588,337
Property and Equipment, Net of Accumulated Depreciation	<u>426,044</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,663,286</u></b>
LIABILITIES AND NET ASSETS	
Wages Payable	\$ 34,019
Scholarships Payable	330,550
Deferred Revenue	14,505
Due to Other Agencies	<u>405,335</u>
<b>TOTAL LIABILITIES</b>	<b><u>784,409</u></b>
Unrestricted Net Assets	219,610
Temporarily Restricted Net Assets	3,254,394
Permanently Restricted Net Assets	<u>7,404,873</u>
<b>TOTAL NET ASSETS</b>	<b><u>10,878,877</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 11,663,286</u></b>

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, 2005

ASSETS

UNRESTRICTED ASSETS

Cash and Cash Equivalents	\$ 420,909
Unconditional Promises to Give, Net of Allowance	16,341
Investments	9,117,963
Notes Receivable, Net of Allowance	153,169
Interest Receivable	6,325
Prepaid Expenses	18,947
Real Estate and Other Investments	83,847

9,817,501

PROPERTY AND EQUIPMENT - Net of Accumulated Depreciation

72,201

\$ 9,889,702

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 12,877
Refundable Deposits	62,859
Gift Annuity	214,682
Accrued Compensation	31,687

322,105

NET ASSETS

Unrestricted Net Assets:

Operating	2,794,859
Board Designated	760,773
Capital Assets	72,201

Total Unrestricted Net Assets 3,627,833

Temporarily Restricted Net Assets 1,881,665

Permanently Restricted Net Assets 4,058,099

9,567,597

\$ 9,889,702

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, 2006

ASSETS

Cash and Cash Equivalents-Unrestricted	\$	33,041
Cash and Cash Equivalents-Restricted		101,934
Accrued Interest		1,328
Prepaid Expenses & Misc. Receivables		1,725
Unconditional Promises to Give		1,309,034
Investments		9,555,422
Real Estate		36,750
Cash Value Life Insurance		156,967
Assets Restricted for Annuity Contracts		
Investments		580,014
Real Estate		111,000
Assets Held in Perpetual Trust		
Investments		<u>827,943</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 12,715,158</u></u>

LIABILITIES AND NET ASSETS

Accounts and Faculty Grants Payable	\$	19,296
Deferred (Un-earned) Event Revenue		4,365
Annuities Payable		<u>375,394</u>
Total Liabilities		<u>399,055</u>

Net Assets:

Unrestricted:		
Undesignated		1,257,904
Designated		<u>183,367</u>
Total Unrestricted Net Assets		<u>1,441,271</u>
Temporarily Restricted		2,891,349
Permanently Restricted		<u>7,983,483</u>
Total Net Assets		<u>12,316,103</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>\$ 12,715,158</u></u>
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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, 2006

<b>Operating Revenues</b>	
Tuition and Fees, Net	\$ 15,713,468
Federal Grants and Contracts	8,063,063
State Grants and Contracts	1,159,345
Private Grants and Contracts	1,003,635
Auxiliary Enterprises, Net	10,028,053
Other Operating Revenues	<u>398,607</u>
Total Operating Revenues	<u>36,366,171</u>
<b>Operating Expenses</b>	
Compensation and Benefits	48,429,910
Contractual Services	2,504,207
Supplies and Materials	4,339,355
Scholarships and Fellowships	720,603
Depreciation	3,736,358
Utilities	3,648,471
Repairs and Maintenance	1,659,180
Communications	903,353
Food Service	3,346,242
Other	<u>6,152,509</u>
Total Operating Expenses	<u>75,440,188</u>
<b>Operating Loss</b>	<u>(39,074,017)</u>
<b>Nonoperating Revenue (Expenses)</b>	
State Appropriations	38,561,335
Investment Income	1,191,415
Interest on Capital Asset-Related Debt	(1,503,697)
Other Nonoperating Revenue	<u>122,449</u>
Net Nonoperating Revenues	<u>38,371,502</u>
<b>Loss Before Other Revenues, Expenses, Gains or Losses</b>	(702,515)
<b>Capital Facilities Fees</b>	1,098,727
<b>Capital Contributions</b>	335,126
<b>Capital Appropriations and Grants</b>	<u>4,464,523</u>
<b>Increase in Net Assets</b>	5,195,861
<b>Net Assets, Beginning of Year</b>	<u>87,521,556</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 92,717,417</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, 2006

<b>UNRESTRICTED NET ASSETS</b>	
Revenues, Gains, and Other Support	
Fall Campaign and Phonathon	\$ 444,856
Management Fees	147,415
State Income	147,335
Unrealized Gain on Investments	30,405
Interest Income	7,388
Miscellaneous Income	4,651
MBNA Credit Card Income	4,539
Event Income	2,161
Loss on Disposal of Asset	(23,640)
	<hr/>
Total Revenues, Gains, and Other Support	765,110
Net Assets Released From Restrictions	523,908
	<hr/>
Total Unrestricted Support and Reclassifications	1,289,018
	<hr/>
Expenses	
Program Services	494,747
General and Management	298,152
Fundraising	221,000
	<hr/>
Total Expenses	1,013,899
	<hr/>
Increase in Unrestricted Net Assets	275,119
	<hr/>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	
Revenues, Gains, and Other Support	
Interest and Dividend Income	282,744
Realized Gain on Investments	133,758
Other Income	133,296
Unrealized Gain on Investments	59,665
Fall Campaign and Phonathon	57,753
Capital Contributed to Sandoz Society	(34,940)
	<hr/>
Total Temporarily Restricted Revenues, Gains, and Other Support	632,276
Net Assets Released From Restrictions	(523,908)
	<hr/>
Increase in Temporarily Restricted Net Assets	108,368
	<hr/>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>	
Revenues, Gains, and Other Support	
Principle Contributions	381,528
Realized Gain on Investments	23,542
Capital Contributed to Sandoz Society	(135,039)
	<hr/>
Increases in Permanently Restricted Net Assets	270,031
	<hr/>
<b>INCREASE IN NET ASSETS</b>	<b>653,518</b>
	<hr/>
<b>NET ASSETS BEGINNING OF YEAR AS RESTATED</b>	<b>10,225,359</b>
	<hr/>
<b>NET ASSETS ENDING</b>	<b>\$ 10,878,877</b>
	<hr/> <hr/>

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, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND ASSETS RELEASED FROM RESTRICTIONS</b>				
Contributions	\$ 90,625	\$ 158,401	\$ 78,221	\$ 327,247
Special Events	17,422	-	-	17,422
Interest and Dividends	157,449	113,374	-	270,823
Management Service Fee Revenues	105,952	-	-	105,952
Realized Gain on Investment	39,459	30,137	-	69,596
Unrealized Gain on Investments	74,874	57,186	-	132,060
Miscellaneous Income	22,249	-	-	22,249
Net Assets Released from Restrictions	253,027	(253,027)	-	-
	<u>761,057</u>	<u>106,071</u>	<u>78,221</u>	<u>945,349</u>
<b>EXPENSES AND LOSSES</b>				
Programs:				
Scholarships	170,556	-	-	170,556
Education Departments	27,392	-	-	27,392
Donations	217,403	-	-	217,403
Support Services:				
Management and General:				
Salaries and Wages	277,215	-	-	277,215
Administration	121,186	-	-	121,186
Management Service Fees	105,952	-	-	105,952
Change in Value of Annuity	(514)	16,522	-	16,008
Depreciation	5,566	-	-	5,566
Bad Debts	2,160	-	-	2,160
Miscellaneous Expenses	11,682	-	-	11,682
Lobbying Expenses	149,441	-	-	149,441
Fund-raising:				
Promotion and Development	106,844	-	-	106,844
Special Event Expenses	15,779	-	-	15,779
	<u>1,210,662</u>	<u>16,522</u>	<u>-</u>	<u>1,227,184</u>
<b>CHANGES IN NET ASSETS</b>	(449,605)	89,549	78,221	(281,835)
<b>NET ASSETS AS OF BEGINNING OF YEAR</b>	3,671,590	454,726	5,723,116	9,849,432
Reclassification of Net Assets	405,848	1,337,390	(1,743,238)	-
<b>NET ASSETS AS OF BEGINNING OF YEAR - RESTATE</b>	<u>4,077,438</u>	<u>1,792,116</u>	<u>3,979,878</u>	<u>9,849,432</u>
<b>NET ASSETS AS OF END OF YEAR</b>	<u>\$ 3,627,833</u>	<u>\$ 1,881,665</u>	<u>\$ 4,058,099</u>	<u>\$ 9,567,597</u>

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

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
WAYNE STATE FOUNDATION  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:				
Gift/Contributions Income	\$ 411,758	\$ 2,107,309	\$ 328,660	\$ 2,847,726
Investment Income	49,718	162,280	9,517	221,515
Gains (Losses) on Investments	52,828	416,167	49,655	518,650
Endowment Fees	55,014	(115,658)	60,643	-
Other Non Gift Income	22,155	114,692	28,830	165,677
Total Revenue and Other Support	<u>591,473</u>	<u>2,684,790</u>	<u>477,305</u>	<u>3,753,568</u>
Net Assets Released From Restrictions	1,098,762	(1,098,762)	-	-
Expenses:				
General and Administrative	177,270	-	-	177,270
Fundraising	254,532	-	-	254,532
Program Expenses	1,144,816	-	-	1,144,816
Total Expenses Before Amortization	<u>1,576,617</u>	<u>-</u>	<u>-</u>	<u>1,576,617</u>
Amortization of Annuity Contracts	11,371	-	38,272	49,643
Total Expenses	<u>1,587,988</u>	<u>-</u>	<u>38,272</u>	<u>1,626,260</u>
Net Increase Net Assets	<u>102,247</u>	<u>1,586,028</u>	<u>439,033</u>	<u>2,127,308</u>
Net Assets, Beginning of Year	<u>1,339,024</u>	<u>1,305,322</u>	<u>7,544,450</u>	<u>10,188,796</u>
Net Assets, End of Year	<u>\$ 1,441,271</u>	<u>\$ 2,891,349</u>	<u>\$ 7,983,483</u>	<u>\$ 12,316,103</u>

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2006

<b>Cash Flows from Operating Activities</b>	
Tuition and Fees	\$ 15,754,868
Grants and Contracts	10,226,043
Payments to Suppliers	(19,121,608)
Payments for Utilities	(3,692,254)
Payments to Employees	(47,975,571)
Loans Issued to Students	(607,846)
Collections of Loans to Students	628,991
Sales and Services of Auxiliary Enterprises	10,038,305
Other Receipts (Payments)	<u>(113,619)</u>
Net Cash Used by Operating Activities	<u>(34,862,691)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
State Appropriations	38,537,701
Grants and Contracts	(1,457)
Other Receipts (Payments)	<u>185,070</u>
Net Cash Provided by Noncapital Financing Activities	<u>38,721,314</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Receipt from State for Capital Purchases	4,456,570
Purchase of Capital Assets	(6,577,033)
Principal Paid on Capital Debt	(3,010,000)
Interest Paid on Capital Debt	(1,396,906)
Capital Facilities Fees	1,098,727
Transfers Out	7,953
Other Payments	(15,640)
Capital Contributions	<u>335,126</u>
Net Cash Used by Capital and Related Financing Activities	<u>(5,101,203)</u>
<b>Cash Flows from Investing Activities</b>	
Purchase/Sale of Investments	(41,454)
Investment Income	<u>1,205,602</u>
Net Cash Provided by Investing Activities	<u>1,164,148</u>
<b>Increase in Cash and Cash Equivalents</b>	<u>(78,432)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>26,505,806</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 26,427,374</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>	
Cash and Cash Equivalents	\$ 14,439,761
Restricted Cash and Cash Equivalents - Current	5,236,694
Restricted Cash and Cash Equivalents - Noncurrent	<u>6,750,919</u>
Total Cash and Cash Equivalents	<u>\$ 26,427,374</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, 2006

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

Operating Loss	\$ (39,074,017)
Depreciation Expense	3,736,358
Changes in Operating Assets and Liabilities	
Receivables, Net	127,482
Inventories	(35,415)
Accounts Payable and Accrued Liabilities	48,952
Accrued Compensated Absences	410,600
Other Assets and Liabilities	(76,651)
	<u>(76,651)</u>

**Net Cash Used in Operating Activities** \$ (34,862,691)

**Supplemental Cash Flows Information**

Accounts Payable Incurred for Capital Asset Purchases	290,671
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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, 2006

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in Net Assets	\$ 653,518
Adjustments to Reconcile Increase in Net Assets	
To Net Cash Provided by Operating Activities	
Depreciation	11,306
Unrealized Gain on Investments	(90,070)
Realized Gain on Sale of Investments	(157,300)
Loss on the Sale of Property	23,640
(Increase) Decrease in:	
Contributions Receivable	20,931
In-Kind Receivable	(11,150)
Other Assets	450,000
Increase (Decrease) in:	
Wages Payable	1,787
Scholarships Payable	33,679
Deferred Revenue	(56,544)
Due to Other Agencies	(219,476)
	<hr/>
Net Cash Provided by Operating Activities	660,321
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Increase in Cash Surrender Value of Life Insurance	(1,967)
Proceeds From Sale of Investments	1,063,970
Purchase of Investments	(1,765,574)
Proceeds From Sale of Property	70,920
Proceeds from Redemption of Annuity	56,544
	<hr/>
Net Cash Used by Investing Activities	(576,107)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capital Contributed to Sandoz Society	(169,979)
	<hr/>
Net Decrease in Cash and Equivalents	(85,765)
<b>CASH AND EQUIVALENTS BEGINNING OF YEAR</b>	<hr/> 672,238
<b>CASH AND EQUIVALENTS END OF YEAR</b>	<hr/> <b>\$ 586,473</b> <hr/>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash and Equivalents - Unrestricted	\$ 493,337
Cash and Equivalents - Restricted	93,136
	<hr/>
Total Cash and Equivalents	<hr/> <b>\$ 586,473</b> <hr/>

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, 2005

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (281,835)
Adjustments to Reconcile (Decrease) Increase in Net Assets to Net	
Cash Used in Operating Activities:	
Depreciation	5,566
Unrealized Gain on Investments	(132,060)
Realized (Gain) Loss on Sale of Investments	(69,596)
Contributed Investments	(17,999)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Unconditional Promises to Give	(4,283)
Decrease in Notes Receivable	43,772
Decrease in Interest Receivable	1,060
Decrease (Increase) in Prepaid Expenses	61,724
Decrease in Accounts Payable	(7,618)
Increase in Accrued Compensation	2,756
Increase in Refundable Deposits	8,430
Increase (Decrease) in Gift Annuity Payable	<u>61,958</u>
 <b>NET CASH USED IN OPERATING ACTIVITIES</b>	 <b>(328,125)</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments	(266,354)
Withdrawal of Investments	737,823
Purchase of Fixed Assets	<u>(7,260)</u>
 <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	 <b><u>464,209</u></b>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 <b>136,084</b>
 <b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	 <b><u>284,825</u></b>
 <b>CASH AND CASH EQUIVALENTS - ENDING</b>	 <b><u><u>\$ 420,909</u></u></b>

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, 2006

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in Net Assets	\$ 2,127,308
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	3,000
Amortization of Annuity Obligations	49,643
Non Cash Contributions	(50,219)
Loss (Gain) on Investments and (Reinvested Income)	(518,650)
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable/Prepays & Misc. Receivables	(2,218)
Unconditional Promises to Give	(967,357)
Cash Value Life Insurance	26,151
Increase (Decrease) in operating Non-Cash Liabilities:	
Accounts Payable/Faculty Grants Payable	(4,424)
Net Cash Provided by Operating Activities	<u>663,233</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Net (Purchase) Proceeds of Investments	<u>(571,805)</u>
Net Cash Used by Investing Activities	<u>(571,805)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from Annuity Contracts	15,990
Payments on Annuity Contracts	<u>(64,067)</u>
Net Cash Provided (Used) by Financing Activities	<u>(48,077)</u>
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	 <u>43,352</u>
 Cash and Cash Equivalents, Beginning of Year	 <u>91,622</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <u><u>\$ 134,974</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**

For the Fiscal Year Ended June 30, 2006

**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, 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. 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 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, 2006, Chadron State and Wayne State Foundations distributed \$405,335 and \$1,127,488, respectively to their colleges; and during the year ended December 31, 2005, Peru State Foundation distributed \$522,010 to Peru State College for both restricted and unrestricted purposes. Separate audit reports were issued by each foundation and can be obtained from their respective administrative offices or by contacting the Nebraska State College System Office at P.O. Box 94605, Lincoln, NE 68509-4605.

***Basis of Accounting and Presentation***

NSCS statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. GASB has issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis – For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The NSCS follows the “business-type” activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

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

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

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 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.

***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.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

***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, 2006.

The NSCS considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2006, cash equivalents consisted primarily of money market funds.

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

***Income Tax Status***

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

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

***Investments and Investment Income***

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

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

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

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

The Foundation was also a 20% owner of stock in Chadron Communication's. This stock was sold during the year ended June 30, 2006, for \$25,023.

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

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

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

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

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

At June 30, 2006, the Foundation had market risk from concentration of investments in cash equivalents and investments with Common fund of \$9,348,538, which represents 90% of cash and investments.

***Accounts Receivable***

The NSCS's accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts was \$318,525 at June 30, 2006.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

WSC	\$	139,825
CSC	\$	105,000
PSC	\$	73,700

***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, 2006, was \$383,399.

WSC	\$	140,040
CSC	\$	172,932
PSC	\$	29,214
NSCS Office	\$	41,213

***Inventories***

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

***Loans to Students***

The NSCS makes loans to students under the Federal Perkins Loan Program. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$314,137 at June 30, 2006.

WSC	\$	154,137
CSC	\$	120,000
PSC	\$	40,000

***Capital Assets***

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

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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 are earned whether the employee is expected to realize the benefit as time off or cash. In addition, certain classified staff receive a cash payment of one-fourth of accrued sick leave upon retirement from the NSCS. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as an expense when the time off occurs.

***Deferred Revenue***

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

***Classification of Revenues***

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

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

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



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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

*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, 2006, were \$6,728,757 and \$2,402,956, respectively.

	<u>Tuition and Fees</u>	<u>Auxiliary Enterprises</u>
WSC	\$ 3,063,904	\$ 1,452,033
CSC	\$ 1,586,007	\$ 340,765
PSC	\$ 2,078,846	\$ 610,158

**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, 2006.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

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

At June 30, 2006, the carrying value of the NSCS's bank deposits was \$6,362,117 and the bank balance was \$6,384,805. The bank balance at June 30, 2006, 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.

***Investments***

At June 30, 2006, the NSCS's investment balances were as follows:

	<b>Fair Value</b>	<b>Investment Maturities (in years) 1-5</b>
Investment Type:		
Debt Securities:		
Federal Home Loan Bank Securities	\$ 1,783,956	\$ 1,783,956
Federal National Mortgage Association Securities	722,470	722,470
Federal Farm Credit Bank Securities	64,208	64,208
	2,570,634	\$ 2,570,634
Other Investments:		
Equity Securities	296,913	
	\$ 2,867,547	

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

*Credit Risk.* The NSCS may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. The NSCS has no policy on credit risk.

*Concentration of Credit Risk.* The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 62% are in Federal Home Loan Bank Securities, 25% are Federal National Mortgage Association Securities, 10% are Equity Securities, and 2% are Federal Farm Credit Bank Securities.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

*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 NSCS.

***Summary of Fair Values***

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

Fair Value	
Cash	\$ 4,900
Deposits	
Bank Deposits	6,362,117
Short Term Investment Pool	20,060,357
Investments	<u>2,867,547</u>
Total as of June 30, 2006	<u><u>\$ 29,294,921</u></u>

Included in the Statement of Net Assets	
Cash and Cash Equivalents	\$ 14,439,761
Restricted Cash and Cash Equivalents	11,987,613
Investments held by Trustee	<u>2,867,547</u>
	<u><u>\$ 29,294,921</u></u>

The Chadron State Foundation's investments are stated at fair value and are shown below as of June 30, 2006.

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
LLC Groups			
MGA Diversified Core Equity LLC	\$ 1,317,917	\$ 1,988,709	\$ 670,792
MGA Focused Core Equity LLC	773,332	791,633	18,301
MGA Diversified Sm/Mid cap Equity LLC	489,993	953,707	463,714
MGA Focused Small Cap Equity LLC	404,316	423,870	19,554
MGA International Equity LLC	351,191	564,131	212,940
MGA Cash Reserves LLC	345,104	364,952	19,848
MGA Core Income LLC	1,539,538	1,618,451	78,913
MGA Total Return LLC	1,007,504	1,204,868	197,364
Cash and Equivalents	86	86	-
Total Investment	<u><u>\$ 6,228,981</u></u>	<u><u>\$ 7,910,407</u></u>	<u><u>\$ 1,681,426</u></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, 2005.

	<u>Non-endowed</u>	<u>Endowed</u>	<u>Total</u>
Equity Funds	\$ 3,088,602	\$ 2,477,113	\$ 5,565,715
Fixed Income Funds	1,971,262	1,580,986	3,552,248
	<u>\$ 5,059,864</u>	<u>\$ 4,058,099</u>	<u>\$ 9,117,963</u>

The Wayne State Foundation's investments are reported at their fair value and are summarized as follows for the year ended June 30, 2006.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Money Markets	\$ 39,999	\$ 479,609	\$ 291	\$ 519,899
Certificates of Deposits	42,900	-	104,225	147,125
Commonfund				
Real Estate	-	-	219,258	219,258
Commonfund				
Equity Fund	682,277	-	4,994,744	5,677,021
Commonfund				
Bond Fund	358,003	-	2,515,826	2,873,829
Subtotal Commonfund	1,040,280	-	7,729,828	8,770,108
Other Mutual Funds	-	47,176	71,114	118,290
Totals	<u>\$ 1,123,179</u>	<u>\$ 526,785</u>	<u>\$ 7,905,458</u>	<u>\$ 9,555,422</u>

**3. Capital Assets**

The NSCS capital assets activity for the year ended June 30, 2006, was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 680,030	\$ -	\$ -	\$ -	\$ 680,030
Building and Improvements	107,398,485	7,726,463	58,736	-	115,066,212
Infrastructure	15,515,450	718,390	-	-	16,233,840
Furniture, Fixtures, and Equipment	4,070,995	505,391	98,334	-	4,478,052
Library Materials	8,547,495	528,488	202,321	-	8,873,662
Art	202,573	63,298	-	-	265,871
Construction in Progress	11,525,219	5,346,720	8,312,455	-	8,559,484
	<u>\$147,940,247</u>	<u>\$ 14,888,750</u>	<u>\$ 8,671,846</u>	<u>\$ -</u>	<u>\$154,157,151</u>

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Capital Assets (Concluded)**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Accumulated Depreciation</b>					
Buildings and Improvements	\$39,061,655	\$ 2,314,167	\$ -	\$ -	\$ 41,375,822
Infrastructure	4,978,323	506,030	-	-	5,484,353
Furniture, Fixtures, and Equipment	2,561,310	435,499	78,995	-	2,917,814
Library Materials	7,428,324	342,850	76,131	-	7,695,043
Total Depreciation	<u>54,029,612</u>	<u>3,598,546</u>	<u>155,126</u>	<u>-</u>	<u>57,473,032</u>
Net Capital Assets	<u>\$ 93,910,635</u>	<u>\$ 11,290,204</u>	<u>\$ 8,516,720</u>	<u>\$ -</u>	<u>\$ 96,684,119</u>

<b>Net Assets by Facility</b>	<b>WSC</b>	<b>CSC</b>	<b>PSC</b>	<b>NSC Office</b>	<b>Balance</b>
Land	\$ 510,979	49,395	\$ 119,656	\$ -	\$ 680,030
Building and Improvements	29,043,582	24,854,487	19,792,321	-	73,690,390
Infrastructure	6,556,092	1,897,241	2,296,154	-	10,749,487
Furniture, Fixtures, and Equipment	757,140	494,709	307,274	1,115	1,560,238
Library Materials	394,024	584,016	200,579	-	1,178,619
Art	123,249	45,000	97,622	-	265,871
Construction in Progress	5,812,678	697,486	2,049,320	-	8,559,484
	<u>\$ 43,197,744</u>	<u>\$ 28,622,334</u>	<u>\$ 24,862,926</u>	<u>\$ 1,115</u>	<u>\$ 96,684,119</u>

**4. Long-Term Liabilities**

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2006:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Revenue and Refunding Bonds	\$ 20,240,000	\$ -	\$ 730,000	\$ 19,510,000	\$ 740,000
Facilities Corporation Bonds	12,285,000	-	2,280,000	10,005,000	2,370,000
Total Long-Term Debt	<u>32,525,000</u>	<u>-</u>	<u>3,010,000</u>	<u>29,515,000</u>	<u>3,110,000</u>
Other Noncurrent Liabilities:					
Accrued Compensated Absences	1,799,518	150,089	-	1,949,607	1,372,804
Unamortized Bond Premium	115,753	-	45,847	69,906	-
Other Liabilities	145,464	-	26,286	119,178	26,965
Total Other Noncurrent Liabilities	<u>2,060,735</u>	<u>150,089</u>	<u>72,133</u>	<u>2,138,691</u>	<u>1,399,769</u>
Total Noncurrent Liabilities	<u>\$ 34,585,735</u>	<u>\$ 150,089</u>	<u>\$ 3,082,133</u>	<u>\$ 31,653,691</u>	<u>\$ 4,509,769</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

***Termination Benefits***

NSC 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<sup>st</sup>, 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 Incentive Program employees who have completed at least ten years of continuous service within the System and are 60 years of age or older will be paid the full cost (State and employee burden) of 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 fiscal year ended June 30, 2006, eight employees at Wayne State College, two employees at Peru State College, and six employees at Chadron State College participated in NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. All termination benefits are shown at present cost.

Wayne State College	\$ 166,085
Chadron State College	96,768
Peru State College	36,481
Total	<u>\$ 299,334</u>

***Student Fees and Facilities Revenue Bonds***

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

***Student Fees and Facilities Revenue and Refunding Bonds***

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

***Nebraska State College 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

The debt service requirements as of June 30, 2006, are as follows:

<b>Wayne State College Revenue and Refunding Bonds</b>			
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 335,000	\$ 399,687	\$ 734,687
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
2012-2016	2,095,000	1,550,584	3,645,584
2017-2021	2,225,000	1,064,377	3,289,377
2022-2026	2,215,000	549,295	2,764,295
2027-2028	1,050,000	53,000	1,103,000
Total	\$ 9,345,000	\$ 5,114,141	\$ 14,459,141

<b>Chadron State College Revenue and Refunding Bonds</b>			
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 305,000	\$ 293,043	\$ 598,043
2008	320,000	284,126	604,126
2009	320,000	274,046	594,046
2010	340,000	262,816	602,816
2011	345,000	250,483	595,483
2012-2016	1,075,000	1,117,882	2,192,882
2017-2021	1,260,000	872,761	2,132,761
2022-2026	1,610,000	509,256	2,119,256
2027-2029	1,185,000	90,875	1,275,875
Total	\$ 6,760,000	\$ 3,955,288	\$ 10,715,288



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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

**Peru State College Revenue and Refunding Bonds**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 100,000	\$ 151,123	\$ 251,123
2008	100,000	148,272	248,272
2009	105,000	145,040	250,040
2010	110,000	141,383	251,383
2011	110,000	137,423	247,423
2012-2016	630,000	615,984	1,245,984
2017-2021	780,000	463,253	1,243,253
2022-2026	1,000,000	210,560	1,210,560
2027-2028	470,000	23,750	493,750
Total	<u>\$ 3,405,000</u>	<u>\$ 2,036,788</u>	<u>\$ 5,441,788</u>

**Facilities Corporation Bonds**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 2,370,000	\$ 448,934	\$ 2,818,934
2008	2,480,000	343,758	2,823,758
2009	3,715,000	240,290	3,955,290
2010	1,440,000	36,360	1,476,360
Total	<u>\$ 10,005,000</u>	<u>\$ 1,069,342</u>	<u>\$ 11,074,342</u>

**Nebraska State College System Bond Summary**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 3,110,000	\$ 1,292,787	\$ 4,402,787
2008	3,240,000	1,166,991	4,406,991
2009	4,490,000	1,040,039	5,530,039
2010	2,250,000	809,778	3,059,778
2011	830,000	744,387	1,574,387
2012-2016	3,800,000	3,284,450	7,084,450
2017-2021	4,265,000	2,400,391	6,665,391
2022-2026	4,825,000	1,269,111	6,094,111
2027-2029	2,705,000	167,625	2,872,625
Total	<u>\$ 29,515,000</u>	<u>\$ 12,175,559</u>	<u>\$ 41,690,559</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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, 2006, the NSCS was in compliance with these requirements.

**5. Operating Leases**

Noncancellable operating leases for educational service 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, 2006, were:

2007	\$	155,361
2008		65,306
2009		65,246
2010		65,186
2011		14,116
2012		625
		<u>\$ 365,840</u>

**6. Pension Plan**

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board and may be amended by legislative action. The plan covers all academic faculty, administrative, and classified staff, and provides investment options and annuity contracts administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and may be amended by action of the Board of Trustees. Contribution rates for plan members and the NSCS for 2006, expressed as a percentage of covered payroll, were 6% and 8%. Contributions actually made for the fiscal year ending June 30, 2006, by plan members and the NSCS aggregated were \$1,958,567 and \$2,613,531, 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.

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

**6. Pension Plan** (Concluded)

The NSCS also sponsors a supplemental retirement annuity plan. Plan members contributed \$895,378 in 2006. The NSCS does not contribute to this supplemental plan.

**7. Risk Management**

The NSCS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and natural disasters including real and personal property and general liability. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The State of Nebraska self-insures natural disasters and workers' compensation for all State employees, including the NSCS employees.

**8. Commitments and Contingencies**

*Construction Contracts*

The Board of Trustees has authorized and approved construction commitments of \$6,605,079 as of June 30, 2006. These projects will be funded through State monies, Foundation gifts, and capital improvement fees.

WSC	\$	4,045,377
CSC		2,431,195
PSC		128,507

*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.

**9. Prior Period Adjustments (Chadron State Foundation)**

The Chadron State Foundation audit report included the following footnote disclosure for the year ended June 30, 2006:

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**9. Prior Period Adjustments (Chadron State Foundation)** (Concluded)

During the audit, it was discovered that the Foundation had not recorded gifts received in prior years. The 2005 financial statements have been restated to reflect the donation of real property in the amount of \$365,740 during the year ended June 30, 2006. This donation increased property and equipment and unrestricted support. Unrestricted net assets were increased by \$18,722 to record the unrestricted portion of the cash surrender value of life insurance. Temporarily restricted net assets increased by \$2,133,551 to record the restricted portion of the cash surrender value of life insurance, to establish donor restricted net assets, and to record an interest in an irrevocable trust. Permanently restricted net assets increased by \$950,000 due to an estate bequest.

**10. Restricted Net Assets**

Restricted net assets report resources that are owned by 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 net investment in property, plant, and equipment in service, as well as costs of construction in progress and funds designated for future acquisitions of plant facilities and retirement of debt.

*Other* includes \$812,874 in funds set aside by the Board of Trustees for various endowments and student scholarships and \$479,637 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.

**11. GASB Statement Implementation**

GASB Statements implemented during fiscal year ended June 30, 2006.

During the fiscal year ended June 30, 2006, the NSCS implemented the following Statements issued by the Government Accounting Standards Board (GASB):

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34.*

GASB Statement No. 47, *Accounting for Termination Benefits*

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**11. GASB Statement Implementation** (Concluded)

The implementation of the above Statements did not have a significant effect on the financial statements of the NSCS.

GASB Statements to be implemented by the Colleges during fiscal year ended June 30, 2007, and 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 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. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 43 may have on its financial statements.

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. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 45 may have on its financial statements.

The GASB has also issued GASB 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 establishes 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. The NSCS has not yet determined the effect that the adoption of GASB Statement No. 48 may have on its financial statements.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF NET ASSETS**  
June 30, 2006

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>TOTAL</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ 3,478,746	\$ 2,178,335	\$ 8,777,197	\$ 5,483	\$ 14,439,761
Restricted Cash and Cash Equivalents	1,066,139	884,972	389,645	2,895,938	5,236,694
Investments Held by Trustee	-	-	-	1,447,128	1,447,128
Accounts Receivable, Net of Allowance	214,068	101,627	180,780	-	496,475
State Grants and Appropriations Receivable	24,845	23,909	274,297	65,222	388,273
Other Receivables	104,283	38,837	-	24,396	167,516
Inventories	62,994	32,972	71,531	-	167,497
Loans to Students, Net	196,708	81,939	315,169	-	593,816
Prepaid Expenses	134,088	28,568	47,304	875	210,835
Deposits with Vendors	-	-	1,885	220	2,105
Total Current Assets	<u>5,281,871</u>	<u>3,371,159</u>	<u>10,057,808</u>	<u>4,439,262</u>	<u>23,150,100</u>
<b>Noncurrent Assets</b>					
Restricted Cash and Cash Equivalents	2,034,353	1,197,366	3,519,200	-	6,750,919
Restricted Investments Held by Trustee	305,955	230,720	586,831	296,913	1,420,419
Investment Income Receivable	-	12,340	-	-	12,340
Loans to Students, Net	962,285	155,202	1,052,508	-	2,169,995
Capital Assets, Net	28,622,334	24,862,926	43,197,744	1,115	96,684,119
Deferred Bond Issue Costs, Net	172,932	29,214	140,040	41,213	383,399
Total Noncurrent Assets	<u>32,097,859</u>	<u>26,487,768</u>	<u>48,496,323</u>	<u>339,241</u>	<u>107,421,191</u>
Total Assets	<u>\$ 37,379,730</u>	<u>\$ 29,858,927</u>	<u>\$ 58,554,131</u>	<u>\$ 4,778,503</u>	<u>\$ 130,571,291</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Liabilities	\$ 1,483,778	\$ 868,341	\$ 2,284,498	\$ 906	\$ 4,637,523
Accrued Compensated Absences	458,913	331,925	689,438	83,096	1,563,372
Other Liabilities	-	26,965	-	-	26,965
Deferred Revenue	152,271	106,263	50,161	-	308,695
Interest Payable	148,580	76,236	201,899	147,624	574,339
Long-term Debt - Current Portion	305,000	100,000	335,000	2,370,000	3,110,000
Deposits Held in Custody for Others	101,857	85,137	193,298	-	380,292
Total Current Liabilities	<u>2,650,399</u>	<u>1,594,867</u>	<u>3,754,294</u>	<u>2,601,626</u>	<u>10,601,186</u>
<b>Noncurrent Liabilities</b>					
Accrued Compensated Absences	267,008	110,051	304,945	3,565	685,569
Unamortized Bond Premium	-	-	-	69,906	69,906
Other Noncurrent Liabilities	-	92,213	-	-	92,213
Long-term Debt	6,455,000	3,305,000	9,010,000	7,635,000	26,405,000
Total Noncurrent Liabilities	<u>6,722,008</u>	<u>3,507,264</u>	<u>9,314,945</u>	<u>7,708,471</u>	<u>27,252,688</u>
Total Liabilities	<u>9,372,407</u>	<u>5,102,131</u>	<u>13,069,239</u>	<u>10,310,097</u>	<u>37,853,874</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt Restricted for Expendable	22,035,266	21,487,140	33,992,784	(10,032,578)	67,482,612
Loans	1,309,234	447,112	1,371,774	-	3,128,120
Debt Service	2,092,271	1,449,387	3,642,054	3,183,956	10,367,668
Other	552,782	437,999	210,742	1,333,670	2,535,193
Unrestricted	2,017,770	935,158	6,267,538	(16,642)	9,203,824
Total Net Assets	<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>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
June 30, 2006

	<b>Chadron</b>	<b>Peru</b>	<b>Wayne</b>	<b>Board of Trustees</b>	<b>Total</b>
<b>Operating Revenues</b>					
Tuition and Fees, Net	\$ 4,029,872	\$ 3,362,972	\$ 8,320,624	\$ -	\$ 15,713,468
Federal Grants and Contracts	2,865,107	1,628,881	3,569,075	-	8,063,063
State Grants and Contracts	444,899	339,739	374,707	-	1,159,345
Private Grants and Contracts	293,957	374,162	335,516	-	1,003,635
Auxiliary Enterprises, Net	3,895,016	1,341,263	4,791,774	-	10,028,053
Other Operating Revenues	30,341	141,483	226,783	-	398,607
<b>Total Operating Revenues</b>	<b>11,559,192</b>	<b>7,188,500</b>	<b>17,618,479</b>	<b>-</b>	<b>36,366,171</b>
<b>Operating Expenses</b>					
Compensation and Benefits	16,690,117	8,915,516	22,122,496	701,781	48,429,910
Contractual Services	677,407	469,341	1,303,420	54,039	2,504,207
Supplies and Materials	2,201,433	652,941	1,484,981	-	4,339,355
Scholarships and Fellowships	286,522	86,217	347,864	-	720,603
Depreciation	1,343,158	753,800	1,638,705	695	3,736,358
Utilities	1,079,661	733,959	1,834,851	-	3,648,471
Repairs and Maintenance	726,945	302,284	629,951	-	1,659,180
Communications	271,817	218,086	413,450	-	903,353
Food Service	1,159,038	817,052	1,370,152	-	3,346,242
Other	1,259,218	1,877,391	2,827,841	188,059	6,152,509
<b>Total Operating Expenses</b>	<b>25,695,316</b>	<b>14,826,587</b>	<b>33,973,711</b>	<b>944,574</b>	<b>75,440,188</b>
<b>Operating Loss</b>	<b>(14,136,124)</b>	<b>(7,638,087)</b>	<b>(16,355,232)</b>	<b>(944,574)</b>	<b>(39,074,017)</b>
<b>Nonoperating Revenue (Expenses)</b>					
State Appropriations	13,475,315	7,518,606	16,616,112	951,302	38,561,335
Investment Income	318,718	160,313	572,444	139,940	1,191,415
Interest on Capital Asset-Related Debt	(297,160)	(152,473)	(407,150)	(646,914)	(1,503,697)
Other Nonoperating Revenue (expense)	(14,714)	188,862	(22,440)	(29,259)	122,449
<b>Net Nonoperating Revenues (Expenses)</b>	<b>13,482,159</b>	<b>7,715,308</b>	<b>16,758,966</b>	<b>415,069</b>	<b>38,371,502</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains or Losses</b>	<b>(653,965)</b>	<b>77,221</b>	<b>403,734</b>	<b>(529,505)</b>	<b>(702,515)</b>
<b>Capital Facilities Fees</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,098,727</b>	<b>1,098,727</b>
<b>Capital Contributions</b>	<b>1,084</b>	<b>43,803</b>	<b>290,239</b>	<b>-</b>	<b>335,126</b>
<b>Operating Transfers In (Out)</b>	<b>94,138</b>	<b>168,909</b>	<b>219,016</b>	<b>(482,063)</b>	<b>-</b>
<b>Capital Appropriations and Grants</b>	<b>174,014</b>	<b>1,104,460</b>	<b>776,689</b>	<b>2,409,360</b>	<b>4,464,523</b>
<b>Increase in Net Assets</b>	<b>(384,729)</b>	<b>1,394,393</b>	<b>1,689,678</b>	<b>2,496,519</b>	<b>5,195,861</b>
<b>Net Assets, Beginning of Year</b>	<b>28,392,052</b>	<b>23,362,403</b>	<b>43,795,214</b>	<b>(8,028,113)</b>	<b>87,521,556</b>
<b>Net Assets, End of Year</b>	<b>\$ 28,007,323</b>	<b>\$ 24,756,796</b>	<b>\$ 45,484,892</b>	<b>\$ (5,531,594)</b>	<b>\$ 92,717,417</b>

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

June 30, 2006

	<b>Chadron</b>	<b>Peru</b>	<b>Wayne</b>	<b>Board of Trustees</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>					
Tuition and Fees	\$ 4,098,080	\$ 3,318,489	\$ 8,338,299	\$ -	\$ 15,754,868
Grants and Contracts	3,603,963	2,342,782	4,279,298	-	10,226,043
Payments to Suppliers	(6,570,537)	(4,167,367)	(8,186,792)	(196,912)	(19,121,608)
Payments for Utilities	(1,079,661)	(733,959)	(1,878,634)	-	(3,692,254)
Payments to Employees	(16,523,839)	(8,751,247)	(21,955,787)	(744,698)	(47,975,571)
Loans Issued to Students	(245,920)	-	(361,926)	-	(607,846)
Collections of Loans to Students	274,842	97,628	256,521	-	628,991
Sales and Services of Auxiliary Enterprises	3,881,427	1,343,741	4,813,137	-	10,038,305
Other Receipts (Payments)	29,550	55,266	(143,521)	(54,914)	(113,619)
Net Cash Used in Operating Activities	<u>(12,532,095)</u>	<u>(6,494,667)</u>	<u>(14,839,405)</u>	<u>(996,524)</u>	<u>(34,862,691)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
State Appropriations	13,475,315	7,586,343	16,508,269	967,774	38,537,701
Grants and Contracts	(16,574)	(1,808)	16,925	-	(1,457)
Other Receipts (Payments)	-	188,862	-	(3,792)	185,070
Net Cash Provided by Noncapital Financing Activities	<u>13,458,741</u>	<u>7,773,397</u>	<u>16,525,194</u>	<u>963,982</u>	<u>38,721,314</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Receipt from State for Capital Purchases	174,014	1,094,156	779,040	2,409,360	4,456,570
Purchase of Capital Assets	(1,749,525)	(1,911,160)	(2,916,348)	-	(6,577,033)
Principal Paid on Capital Debt	(305,000)	(100,000)	(325,000)	(2,280,000)	(3,010,000)
Interest Paid on Capital Debt	(285,954)	(177,753)	(388,062)	(545,137)	(1,396,906)
Capital Facilities Fees	-	-	-	1,098,727	1,098,727
Transfers Out	94,138	179,213	216,665	(482,063)	7,953
Other Payments	(14,714)	-	-	(926)	(15,640)
Capital Contributions	1,084	43,803	290,239	-	335,126
Net Cash Provided by Capital and Related Financing Activities	<u>(2,085,957)</u>	<u>(871,741)</u>	<u>(2,343,466)</u>	<u>199,961</u>	<u>(5,101,203)</u>
<b>Cash Flows from Investing Activities</b>					
Purchase/sale of Investments	-	11,643	29,613	(82,710)	(41,454)
Investment Income	334,157	160,313	572,444	138,688	1,205,602
Net Cash Provided by Investing Activities	<u>334,157</u>	<u>171,956</u>	<u>602,057</u>	<u>55,978</u>	<u>1,164,148</u>
<b>Increase in Cash and Cash Equivalents</b>	<u>(825,154)</u>	<u>578,945</u>	<u>(55,620)</u>	<u>223,397</u>	<u>(78,432)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,404,392</u>	<u>3,681,728</u>	<u>12,741,662</u>	<u>2,678,024</u>	<u>26,505,806</u>
<b>Cash and Cash Equivalents, End of Year</b>	<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>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>					
Cash and Cash Equivalents	\$ 3,478,746	\$ 2,178,335	\$ 8,777,197	\$ 5,483	\$ 14,439,761
Restricted Cash and Cash Equivalents - Current	1,066,139	884,972	389,645	2,895,938	5,236,694
Restricted Cash and Cash Equivalents - Noncurrent	2,034,353	1,197,366	3,519,200	-	6,750,919
Total Cash and Cash Equivalents	<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>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>					
Operating Loss	\$(14,136,124)	\$ (7,638,087)	\$(16,355,232)	\$ (944,574)	\$ (39,074,017)
Depreciation Expense	1,343,158	753,800	1,638,705	695	3,736,358
Changes in Operating Assets and Liabilities					
Receivables, Net	59,826	80,824	(13,168)	-	127,482
Inventories	(23,555)	1,779	(13,639)	-	(35,415)
Accounts Payable and Accrued Liabilities	13,389	229,562	(185,146)	(8,853)	48,952
Accrued Compensated Absences	180,761	106,047	166,709	(42,917)	410,600
Other Assets and Liabilities	30,450	(28,592)	(77,634)	(875)	(76,651)
<b>Net Cash Used in Operating Activities</b>	<u>\$(12,532,095)</u>	<u>\$ (6,494,667)</u>	<u>\$(14,839,405)</u>	<u>\$ (996,524)</u>	<u>\$ (34,862,691)</u>
<b>Supplemental Cash Flows Information</b>					
Accounts Payable Incurred for Capital Asset Purchases	\$ 63,342	\$ -	\$ 227,329	\$ -	\$ 290,671



NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2006

<b>Federal Agency</b>			<b>FY 06</b>
<b>Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Expenditures</b>
<i>U.S. Department of Education:</i>			
Student Financial Aid:			
Supplemental Educational Opportunity Grant		84.007	\$ 185,409
Federal Family Education Loan		84.032	\$ 15,207,468
Federal Work Study		84.033	\$ 446,919
Perkins Loan		84.038	\$ 3,864,853
Pell Grant		84.063	\$ 5,750,810
Federal Direct Student Loans (Direct Loan)		84.268	<u>\$ 4,073,458</u>
Total Student Financial Aid			\$ 29,528,917
Higher Education			
Institutional Aid (Title III)		84.031A	\$ 5,555
Trio Student Support Services		84.042	\$ 498,169
Student Stride Program		84.042A	\$ 292,556
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	\$ 43,107
Bilingual Education Professional Development	UNL	84.195	\$ 62,097
Mathematics & Science Partnerships	NE Dept. of Educ	84.366	\$ 12,624
Fund for the Improvement of Postsecondary Education	Florida State University	84.116	<u>\$ 8,963</u>
<i>Total U.S. Department of Education</i>			\$ 30,451,988
<i>U.S. Dept. of Housing &amp; Urban Development</i>			
Community Development Block Grants	NE Dept. of Economic Development	14.228	<u>\$ 12,500</u>
<i>U.S. Dept. of Interior</i>			
U.S. Geological Survey Research & Data Acq.	UNO (GENO only)	15.808	\$ 50,079
State Wildlife Grants	NE Game & Parks	15.634	<u>\$ 2,870</u>
<i>Total U.S. Dept. of Interior</i>			\$ 52,949

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2006

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>FY 06 Expenditures</b>
<i>U.S. Dept. of Justice</i>			
Grants to Reduce Violent Crimes Against Women on Campus		16.525	\$ 72,955
<i>U.S. Dept. of State</i>			
Cooperative Grants		19.420	\$ 703
<i>U.S. Dept. of Transportation</i>			
Highway Planning & Construction	NE Statewide Aroretum	20.205	\$ 10,577
<i>National Science Foundation</i>			
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philidelphia	47.074	\$ 32,714
Education and Human Resources	NE Epscor/UNL NE Academy of Science	47.076	\$ 15,077
<i>Total National Science Foundation</i>			\$ 47,791
<i>U.S. Dept. of Agriculture</i>			
Forest Service	US Forest Service	50.99H	\$ 19,335
<i>U.S. Small Business Administration</i>			
Small Business Development Center	UNO	59.037	\$ 92,660
<i>U.S. Dept. of Health &amp; Human Services</i>			
Maternal & Child Health Federal Consolidated	Nebraska HHS	93.110	\$ 7,038
Centers for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska HHS	93.283	\$ 14,469
National Center for Research Resources	UNMC	93.389	\$ 150,907
Rural Healthcare Services Outreach & Rural Health Network Dev.	Golden Rod Hills Comm Action	93.912A	\$ 7,600
<i>Total U.S. Dept. of Health &amp; Human Services</i>			\$ 180,014

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
 (A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2006

<b>Federal Agency</b>			<b>FY 06</b>
<b>Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Expenditures</b>
Corporation for National & Community Service Learn & Serve America School & Community Based Programs	UNL	94.004	\$ 26,546
Learn & Serve America Higher Education	UNL	94.005	\$ 15,056
<i>Total Corp. for National &amp; Community Service</i>			\$ 41,602
<b>Total Federal Awards</b>			<b>\$ 30,983,074</b>

(Concluded)

See Notes to Schedule of Expenditures of Federal Awards.

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

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

Fiscal Year Ended June 30, 2006

- 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 \$3,159,377, 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, 2006, was \$3,075,231.

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2006

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Chadron	Peru	Wayne	Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid:						
Supplemental Educational Opportunity Grant		84.007	\$ 45,097	\$ 53,262	\$ 87,050	\$ 185,409
Federal Family Education Loan		84.032	\$ 863,310	\$ 4,625,635	\$ 9,718,523	\$ 15,207,468
Federal Work Study		84.033	\$ 236,213	\$ 74,523	\$ 136,183	\$ 446,919
Perkins Loan		84.038	\$ 1,552,045	\$ 431,786	\$ 1,881,022	\$ 3,864,853
Pell Grant		84.063	\$ 1,932,899	\$ 1,240,876	\$ 2,577,035	\$ 5,750,810
Federal Direct Student Loans (Direct Loan)		84.268	\$ 4,073,458	\$ -	\$ -	\$ 4,073,458
Total Student Financial Aid			\$ 8,703,022	\$ 6,426,082	\$ 14,399,813	\$ 29,528,917
Higher Education						
Institutional Aid (Title III)		84.031A	\$ 5,555	\$ -	\$ -	\$ 5,555
Trio Student Support Services		84.042	\$ 238,261	\$ 259,908	\$ -	\$ 498,169
Student Stride Program		84.042A	\$ -	\$ -	\$ 292,556	\$ 292,556
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	\$ 13,976	\$ 7,875	\$ 21,256	\$ 43,107
Bilingual Education Professional Development	UNL	84.195	\$ -	\$ -	\$ 62,097	\$ 62,097
Mathematics & Science Partnerships	NE Dept. of Educ	84.366	\$ -	\$ -	\$ 12,624	\$ 12,624
Fund for the Improvement of Postsecondary Education	Florida State University	84.116	\$ 8,963	\$ -	\$ -	\$ 8,963
<i>Total U.S. Department of Education</i>			\$ 8,969,777	\$ 6,693,865	\$ 14,788,346	\$ 30,451,988

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2006

<b>Federal Agency</b>							
<b>Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Chadron</b>	<b>Peru</b>	<b>Wayne</b>	<b>Expenditures</b>	
<i>U.S. Dept. of Housing &amp; Urban Development</i>							
Community Development Block Grants	NE Dept. of Economic Development	14.228	\$ -	\$ -	\$ 12,500	\$	12,500
<i>U.S. Dept. of Interior</i>							
U.S. Geological Survey Research & Data Acq.	UNO (GENO only)	15.808	\$ 50,079	\$ -	\$ -	\$	50,079
State Wildlife Grants	NE Game & Parks	15.634	\$ -	\$ -	\$ 2,870	\$	2,870
<i>Total U.S. Dept. of Interior</i>			\$ 50,079	\$ -	\$ 2,870	\$	52,949
<i>U.S. Dept. of Justice</i>							
Grants to Reduce Violent Crimes Against Women on Campus		16.525	\$ -	\$ -	\$ 72,955	\$	72,955
<i>U.S. Dept. of State</i>							
Cooperative Grants		19.420	\$ -	\$ -	\$ 703	\$	703
<i>U.S. Dept. of Transportation</i>							
Highway Planning & Construction	NE Statewide Aroretum	20.205	\$ -	\$ -	\$ 10,577	\$	10,577
<i>National Science Foundation</i>							
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philidelphia	47.074	\$ -	\$ 32,714	\$ -	\$	32,714
Education and Human Resources	NE Epscor/UNL NE Academy of Science	47.076	\$ 2,498	\$ -	\$ 12,579	\$	15,077
<i>Total National Science Foundation</i>			\$ 2,498	\$ 32,714	\$ 12,579	\$	47,791

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2006

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Chadron</b>	<b>Peru</b>	<b>Wayne</b>	<b>Expenditures</b>
<i>U.S. Dept. of Agriculture</i> Forest Service	US Forest Service	50.99H	\$ 19,335	\$ -	\$ -	\$ 19,335
<i>U.S. Small Business Administration</i> Small Business Development Center	UNO	59.037	\$ 405	\$ -	\$ 92,255	\$ 92,660
<i>U.S. Dept. of Health &amp; Human Services</i> Maternal & Child Health Federal Consolidated	Nebraska HHS	93.110	\$ -	\$ -	\$ 7,038	\$ 7,038
Centers for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska HHS	93.283	\$ 14,469	\$ -	\$ -	\$ 14,469
National Center for Research Resources	UNMC	93.389	\$ 8,922	\$ -	\$ 141,985	\$ 150,907
Rural Healthcare Services Outreach & Rural Health Network Dev.	Golden Rod Hills Comm Action	93.912A	\$ -	\$ -	\$ 7,600	\$ 7,600
<i>Total U.S. Dept. of Health &amp; Human Services</i>			\$ 23,391	\$ -	\$ 156,623	\$ 180,014
Corporation for National & Community Service Learn & Serve America School & Community Based Programs	UNL	94.004	\$ 9,388	\$ -	\$ 17,158	\$ 26,546
Learn & Serve America Higher Education	UNL	94.005	\$ -	\$ 14,742	\$ 314	\$ 15,056
<i>Total Corp. for National &amp; Community Service</i>			\$ 9,388	\$ 14,742	\$ 17,472	\$ 41,602
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 9,074,873</b>	<b>\$ 6,741,321</b>	<b>\$ 15,166,880</b>	<b>\$ 30,983,074</b>

(Concluded)

# STATE OF 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**

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

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

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of the Nebraska State College System (NSCS) as of and for the year ended June 30, 2006, which collectively comprise the Nebraska State College System's basic financial statements as listed in the table of contents and have issued our report thereon dated November 20, 2006. 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 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, as described in our report on the Nebraska State College System's financial statements. The financial statements of the NSCS Foundations were not audited in accordance with *Government Auditing Standards*.

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Subdivision Budget  
Coordinator  
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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska State College System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Mark Avery, CPA  
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Review Coordinator  
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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 noted certain matters that we reported to management of the NSCS in a separate letter dated November 20, 2006.

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

November 20, 2006

  
Assistant Deputy Auditor

# STATE OF 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**

Deann Haeffner, CPA  
Deputy State Auditor  
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Lincoln, Nebraska

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### **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 its major federal program for the year ended June 30, 2006. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely component units of NSCS. The NSCS's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the NSCS's management. Our responsibility is to express an opinion on the NSCS's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the NSCS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the NSCS's compliance with those requirements.

In our opinion, the Nebraska State College System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

### **Internal Control Over Compliance**

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

Compliance with Federal Perkins Loan program requirements governing reporting and program performance (due diligence and loan repayment) are the shared responsibility of the NSCS and 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 was 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 accountants' 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 the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the governing body, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

November 20, 2006

  
Assistant Deputy Auditor

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

**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. The audit disclosed no instances of noncompliance which were material to the NSCS's basic financial statements.
- c. Type of report issued on compliance for major program: Unqualified.
- d. The following are considered major programs:
  - Student Financial Aid Cluster
  - CFDA #84.007      Federal Supplemental Educational Opportunity Grant
  - CFDA #84.032      Federal Family Education Loans
  - CFDA #84.033      Federal Work-Study Program
  - CFDA #84.038      Federal Perkins Loan Program
  - CFDA #84.063      Federal Pell Grant Program
  - CFDA #84.268      Federal Direct Student Loans (Direct Loan)
- e. The threshold used to distinguish between Type A and Type B programs: \$929,492.
- f. The NSCS does qualify as a low-risk auditee.  
No matters were reported.

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

No matters were reported.

**III. Findings and Questioned Costs Relating to Federal Awards:**

None

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

None