



NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

NEBRASKA STATE COLLEGES FACILITIES CORPORATION

(A Component Unit of the Nebraska State College System)

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Independent Auditors' Report

The Board of Trustees
Nebraska State College System:

We have audited the accompanying statement of net assets (deficit) relating to the Nebraska State Colleges Facilities Corporation (the Corporation), a component unit of the Nebraska State College System, as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Nebraska State Colleges Facilities Corporation as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 2–4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Corporation's basic financial statements. The accompanying additional information on pages 11-13 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying additional information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Lincoln, Nebraska
September 28, 2012

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Introduction

The following is an overview of the financial position and changes in net assets (deficit) of the Nebraska State Colleges Facilities Corporation, a component unit of the Nebraska State College System (the System). Management has prepared the following discussion and analysis, and it is intended to be read in conjunction with the financial statements and related notes that follow this section.

Nebraska State Colleges Facilities Corporation (the Corporation) was organized by the Board of Trustees of the System to finance buildings and related improvements. The Corporation is a component unit of the System. These facilities are not reflected in the accompanying financial statements as they have been transferred to the System and are reported in the System's financial statements. The bonds are secured by a pledge of the System's fee revenues and legislative appropriations.

The financial statements include the bonded projects for the year ended June 30, 2012 for the following:

<u>Facility</u>	<u>Financing objective</u>
Deferred Maintenance Project (Series 2006 Bonds)	Deferred Maintenance Projects – Chadron, Peru, and Wayne State Colleges

Financial Highlights

Revenue sources include state appropriations and designated fee revenues. The State of Nebraska Legislature has reaffirmed the appropriation of funds for its portion of the debt service pertaining to the Deferred Maintenance Projects of 2006, which is combined with designated System capital improvement fee revenues for debt service. During fiscal year 2011-12, there was a transfer to the System for Capital Projects in the amount of \$36,355, which is due to projects underway from the Deferred Maintenance (2006 Series) bond issue.

Using the Financial Statements

The financial statements of the Corporation include the statement of net assets (deficit); the statement of revenues, expenses, and changes in net assets (deficit); and the statement of cash flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) 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 statements are presented on a combined basis to focus on the combined acquisition, construction, and related financing activities of the entity as a whole.

The statement of net assets (deficit) includes the trustee accounts of the outstanding bond issues. The statement of revenues, expenses, and changes in net assets (deficit) depicts nonoperating revenues and expenses that provide resources for the purchase, construction, and renovation of designated facilities and for debt service. The statement of cash flows shows the sources and uses of cash from issuance of bonds, investments, trustee activity, and other capital and financing activities.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Management's Discussion and Analysis (Unaudited)

June 30, 2012

The Statements

Condensed statements in an all inclusive format are presented below for the Corporation for the years ended June 30, 2012 and 2011.

Current assets include resources held by the bond trustee and state treasurer, which are restricted by the bond covenants for construction, bond reserve funds, and related retirement of indebtedness accounts. Net assets classified as restricted expendable amounts for project construction and debt service are \$5,810 and \$42,165, and \$2,291,782 and \$2,293,582, respectively, at June 30, 2012 and 2011. The increase in unrestricted net assets reflects the reduction of bonds payable through scheduled principal payments. The bond reserve account balances for the 2006 bond issue are included in the debt service allocation and meet the individual reserve required by each resolution.

The condensed statements of revenues, expenses, and changes in net assets (deficit) include investment income, revenues designated for debt service, interest expense, and other capital related revenues and expenses.

Condensed Statements of Net Assets (Deficit)

	2012	2011
Assets:		
Current assets	\$ 2,024,793	2,037,488
Noncurrent assets	292,902	329,325
Total assets	2,317,695	2,366,813
Liabilities:		
Current liabilities	1,918,305	1,885,737
Noncurrent liabilities	15,610,663	17,206,885
Total liabilities	17,528,968	19,092,622
Net assets (deficit):		
Restricted:		
Debt service	2,291,782	2,293,582
Project construction	5,810	42,165
Unrestricted	(17,508,865)	(19,061,554)
Total net deficit	\$ (15,211,273)	(16,725,807)

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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

	2012	2011
Nonoperating revenues (expenses):		
State appropriations	\$ 1,125,000	1,125,000
Capital improvement fee	1,200,000	1,200,000
Investment income	113	106
Amortization expense	(36,423)	(36,423)
Interest expense	(729,928)	(790,084)
Administrative and other expenses	(7,873)	(5,500)
Net nonoperating revenue	1,550,889	1,493,099
Capital facilities fees	—	—
Transfer to the State of Nebraska	—	—
Transfers to the System for capital projects	(36,355)	(59,733)
Increase in net assets	1,514,534	1,433,366
Net deficit, beginning of year	(16,725,807)	(18,159,173)
Net deficit, end of year	\$ (15,211,273)	(16,725,807)

Long Term Debt Activity

The Corporation did not issue bonds during the year ended June 30, 2012. The decrease of \$1,515,000 was related to debt service payments.

Economic Outlook and Subsequent Events That Will Affect the Future

Management believes that the Corporation will continue to realize sufficient resources to cover debt service. The Series 2006 debt service is paid by 52.24% from state appropriations and 47.76% from the dedicated, per credit hour fee paid by all the System's students. The biennial appropriations bill for the 2011-12 and 2012-13 fiscal years (LB377, 2011) includes the state appropriations for both years for the Series 2006 bonds and acknowledges the future commitment to the remaining appropriations for the subsequent years to the completion of the repayment. For the fiscal year ended June 30, 2012, \$2,028,068 was realized from the per credit hour fee at Chadron, Peru, and Wayne State Colleges. The first priority for funds from this source is the \$1,200,000 annual debt repayment for the Series 2006 bonds for fiscal year 2012-13. The Capital Improvement Fee rate for fiscal year 2012-13 remains at the same level as in fiscal year 2011-12 and fiscal year 2010-11. This follows a \$1 increase in the fee in each of the prior four fiscal years. Preliminary enrollment figures at the Colleges for fall 2012 indicate stable enrollments, which should ensure that more than enough resources will be available to meet the debt service commitment for fees.

Additional Information

For additional information with respect to the management's discussion and analysis or for information concerning the financial statements, please contact Carolyn Murphy, Vice Chancellor for Finance and Administration, P. O. Box 94605, Lincoln, NE 68509 or cmurphy@nscs.edu.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Statement of Net Assets (Deficit)

June 30, 2012

Assets:	
Current assets:	
Cash and cash equivalents – restricted	\$ 2,024,778
Accrued interest receivable	15
Total current assets	<u>2,024,793</u>
Noncurrent assets:	
Bond issue costs, net of accumulated amortization	292,902
Total assets	<u>2,317,695</u>
Liabilities:	
Current liabilities:	
Accrued interest	343,305
Bonds payable	1,575,000
Total current liabilities	<u>1,918,305</u>
Noncurrent liabilities:	
Bonds payable, net of current portion	15,440,000
Bond premium, net of accumulated amortization	170,663
Total noncurrent liabilities	<u>15,610,663</u>
Total liabilities	<u>17,528,968</u>
Net assets:	
Restricted:	
Debt service	2,291,782
Project construction	5,810
Unrestricted	<u>(17,508,865)</u>
Total net deficit	<u>\$ (15,211,273)</u>

See accompanying notes to financial statements.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended June 30, 2012

Nonoperating revenues (expenses):	
State appropriations	\$ 1,125,000
Capital improvement fee	1,200,000
Investment income	113
Amortization expense	(36,423)
Interest expense	(729,928)
Administrative and other expenses	(7,873)
	<hr/>
Total nonoperating revenues, net	1,550,889
Transfers out:	
Transfers to the System for capital projects	(36,355)
	<hr/>
Total transfers out, net	(36,355)
	<hr/>
Increase in net assets	1,514,534
Net deficit:	
Net deficit, beginning of year	(16,725,807)
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Net deficit, end of year	\$ (15,211,273)
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See accompanying notes to financial statements.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Statement of Cash Flows

Year ended June 30, 2012

Cash flows from capital and related financing activities:	
State appropriations	\$ 1,125,000
Capital improvement fees	1,200,000
Principal paid on bonds payable	(1,515,000)
Interest paid on bonds payable	(778,581)
Administrative and other expenses	(7,873)
Transfers to the System for capital projects	(36,355)
	<hr/>
Net cash used in capital and related financing activities	(12,809)
	<hr/>
Cash flows from investing activities:	
Interest received on investments	113
	<hr/>
Net cash provided by investing activities	113
	<hr/>
Net decrease in cash and cash equivalents	(12,696)
Cash and cash equivalents, beginning of year	2,037,474
	<hr/>
Cash and cash equivalents, end of year	\$ 2,024,778
	<hr/> <hr/>

See accompanying notes to financial statements.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The Nebraska State Colleges Facilities Corporation (the Corporation) is a nonprofit corporation incorporated in 1983 created by the Nebraska State College System (the System) to finance its repair or construction of buildings or the acquisition of equipment for use by the System. The Corporation is a component unit of the System and is exempt from state and federal income taxes.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Those principles require the following components of the financial statements:

- Management's discussion and analysis
- Financial statements, including statements of net assets, revenues, expenses, changes in net assets, and cash flows
- Notes to the financial statements

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations; therefore, all revenues and expenses are from nonoperating items as all activities are related to construction of capital assets or its financing thereof.

(a) Basis of Presentation

The financial statements are presented on the accrual basis and include all accounts cited in the resolutions issued by the Corporation in conjunction with the following:

- Deferred Maintenance Project (Series 2006 Bonds)

Assets relating to capital project costs have not been reflected in the accompanying financial statements as these assets have been transferred to the System and are reported in the System's financial statements.

(b) Cash and Cash Equivalents – Restricted

This caption includes cash and investments with an original maturity of three months or less when purchased. These funds are held by the bond trustee or deposited with the Nebraska state treasurer on a pooled basis in a state fund. Income earned by the pool is allocated to the System based upon average daily balances.

For purposes of the accompanying statement of cash flows, the Corporation considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

(c) State Appropriations

This source of funds represents a designated appropriation of funds from the State of Nebraska to pay debt service for the bonds.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Notes to Financial Statements

June 30, 2012

(d) Capital Improvement Fees

This source of funds represents a per credit hour fee charged to students of Chadron, Peru, and Wayne State Colleges. The fees are collected by the Colleges and a designated amount is appropriated from the State of Nebraska to pay debt service for the bonds.

(e) Amortization of Bond Issuance Costs

Bond issuance costs are being amortized over the life of the bonds on a method that approximates the level yield method.

(f) Amortization of Bond Premium

Bond premiums or discounts are being accreted to interest expense on a method that approximates the level yield method.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported 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 and expenses during the reporting period. Actual results could differ from those estimates.

(2) Bonds Payable

Bonds payable are as follows for the year ended June 30, 2012:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable	\$ 18,530,000	—	(1,515,000)	17,015,000	1,575,000
Bond premium, net of accumulated amortization	191,885	—	(21,222)	170,663	21,222
	<u>\$ 18,721,885</u>	<u>—</u>	<u>(1,536,222)</u>	<u>17,185,663</u>	<u>1,596,222</u>

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Notes to Financial Statements

June 30, 2012

(a) **Bond Resolutions**

General

The bonds are not obligations of the State of Nebraska, and no tax shall ever be levied to raise the funds for the principal payment thereof or the interest or premium thereon. The bonds do not constitute debt of the Board of Trustees of the Nebraska State Colleges, but shall be payable solely out of moneys derived from designated fee revenues and legislative appropriations.

Bonds payable at June 30, 2012 comprise the following issue:

	<u>Original amount</u>	<u>Original date issued</u>	<u>Issue</u>	<u>Interest rate</u>	<u>Series due</u>	<u>Outstanding at June 30, 2012</u>
\$	21,915,000	08/29/06	Deferred Maintenance Project	4.00 – 5.00%	2021	\$ 17,015,000

The bonds are not callable at June 30, 2012.

(b) **Annual Maturities – All Projects**

Annual maturities of principal and interest subject to redemption are as follows:

	Deferred Maintenance Project (Series 2006 Bonds)	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,575,000	716,782
2014	1,635,000	644,407
2015	1,720,000	560,532
2016	1,805,000	479,175
2017	1,880,000	393,818
2018 – 2021	8,400,000	719,051
	<u>\$ 17,015,000</u>	<u>3,513,765</u>

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Additional Information

Deferred Maintenance Projects (Series 2006 Bonds)

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) by Account

Year ended June 30, 2012

	Construction account	General account	Retirement of indebtedness			Total retirement of indebtedness	Total
			Debt Service account	Debt Service reserve account	Rebate account		
Nonoperating revenues (expenses):							
State appropriations	\$ —	—	1,125,000	—	—	1,125,000	1,125,000
Capital improvement fee	—	—	1,200,000	—	—	1,200,000	1,200,000
Investment income	3	—	105	—	5	110	113
Amortization expense	—	—	(36,423)	—	—	(36,423)	(36,423)
Interest expense	—	—	(729,928)	—	—	(729,928)	(729,928)
Administrative and other expenses	—	(5,700)	—	—	(2,173)	(2,173)	(7,873)
Total nonoperating revenues (expenses), net	3	(5,700)	1,558,754	—	(2,168)	1,556,586	1,550,889
Transfers:							
Capital facilities fees	—	—	—	—	—	—	—
Transfers to the System for capital projects	(36,355)	—	—	—	—	—	(36,355)
Increase (decrease) in net assets before interfund transfers	(36,352)	(5,700)	1,558,754	—	(2,168)	1,556,586	1,514,534
Interfund transfers in (out), net	—	—	—	—	—	—	—
Increase (decrease) in net assets	\$ (36,352)	(5,700)	1,558,754	—	(2,168)	1,556,586	1,514,534

See accompanying independent auditors' report.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Additional Information

Schedule of Project Authorization, Accumulated Costs, and Unexpended Authorization

Year ended June 30, 2012

Projects authorized	Prior authorization	Accumulated costs			Unexpended authorization June 30, 2012
		Prior years	Year ended June 30, 2012	Total	
Deferred Maintenance Projects (2006):					
CSC Administration Building	\$ 4,915,322	4,873,157	36,355	4,909,512	5,810
CSC Street/Drainage Improvement	500,000	500,000	—	500,000	—
PSC Al Wheeler Activities Center	5,862,097	5,862,097	—	5,862,097	—
PSC Emergency Power	633,876	633,876	—	633,876	—
WSC Carhart Science	800,000	800,000	—	800,000	—
WSC Campus Services	5,185,466	5,185,466	—	5,185,466	—
WSC Streets Project	1,516,000	1,516,000	—	1,516,000	—
WSC Rice Auditorium Basement	3,766,611	3,766,611	—	3,766,611	—
Total Deferred Maintenance Projects (2006)	\$ <u>23,179,372</u>	<u>23,137,207</u>	<u>36,355</u>	<u>23,173,562</u>	<u>5,810</u>

See accompanying independent auditors' report.

NEBRASKA STATE COLLEGES FACILITIES CORPORATION
(A Component Unit of the Nebraska State College System)

Additional Information

Schedule of Interest and Principal Payments

Deferred Maintenance Project – Series 2006 Bonds

June 30, 2012

<u>Fiscal year</u>	<u>Due dates</u>	<u>Principal due</u>	<u>Interest rate</u>	<u>Interest due</u>	<u>Fiscal year debt service</u>
2013	July 1	\$ 1,575,000	4.00%	374,141	2,291,782
	January 1	—		342,641	—
2014	July 1	1,635,000	5.00	342,641	2,279,407
	January 1	—		301,766	—
2015	July 1	1,720,000	5.00	301,766	2,280,532
	January 1	—		258,766	—
2016	July 1	1,805,000	4.25	258,766	2,284,175
	January 1	—		220,409	—
2017	July 1	1,880,000	5.00	220,409	2,273,818
	January 1	—		173,409	—
2018	July 1	1,975,000	4.00	173,409	2,282,318
	January 1	—		133,909	—
2019	July 1	2,055,000	4.13	133,909	2,280,434
	January 1	—		91,525	—
2020	July 1	2,140,000	4.13	91,525	2,278,913
	January 1	—		47,388	—
2021	July 1	2,230,000	4.25	47,386	2,277,386
		<u>\$ 17,015,000</u>		<u>3,513,765</u>	<u>20,528,765</u>

See accompanying independent auditors' report.