

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

JULY 1, 2007 THROUGH JUNE 30, 2008

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Issued on December 16, 2008

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

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NEBRASKA STATE COLLEGE SYSTEM
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SUMMARY OF COMMENTS

During our audit of the Nebraska State College System (NSCS), we noted a certain matter involving the internal control over financial reporting which is presented here.

1. *IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College:* The programming and database administration functions for the Student Information System (SIS) were not segregated. At all three campuses at least one individual who performed programmer duties, was also the SIS database administrator (DBA), and had access to live data in the production environment.

More detailed information on the above item is provided in the Schedule of Findings and Questioned Costs on pages 63 through 67. It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the NSCS to provide them an opportunity to review the report. The NSCS's response to the comment and recommendation included in this report can be found in the Schedule of Findings and Questioned Costs on pages 63 through 67. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska), as of and for the year ended June 30, 2008, 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 Nebraska State College System'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, 2008, December 31, 2007, and June 30, 2008, respectively, and the related Statements of Activities and Cash Flows for the years then ended. Those statements are presented separately on pages 14 through 16, 18 through 20, and 23 through 25. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation, a blended component unit of the Nebraska State College System, as of June 30, 2008. The Revenue and Refunding Bond Fund and Facilities Corporation represent 11%, 52%, and 21%, respectively, of the total assets, liabilities, and revenues, of the primary government. The financial statements of the Foundations, Revenue and Refunding Bond Fund, and Facilities Corporation were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chadron State, Peru State, and Wayne State Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation is based solely on the reports of the other auditors.

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

audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the NSCS, as of June 30, 2008, and December 31, 2007 (Peru State Foundation) and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the Nebraska State College System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the NSCS's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Combining Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008 taken as a whole.

Signed Original on File

Lincoln, Nebraska
December 9, 2008

Don Dunlap, CPA
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, 2008. The analysis has been prepared by management of the NSCS and is intended to be read with the financial statements and the related footnotes that follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE NSCS AS A WHOLE

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

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, 2008, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSCS to finance building projects of the Board of Trustees of the Nebraska State Colleges on any of its campuses, through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees serve as the officers of the Facilities Corporation. Recent bonds issued by the Facilities Corporation include those authorized under LB 1100, passed in 1998, LB 1, passed in 2001, and LB605, passed in 2006. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSCS Office, while the assets acquired as the result of renovations and new construction appear as assets at the individual colleges.

Audit information from the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation is included in the report as well. With implementation of GASB Statement 39, the foundations of the colleges have been deemed to be component units of the NSCS. Those foundations' financial statements are presented separately on pages 14 through 16, 18 through 20, and 23 through 25 of this report.

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

	Primary Government	
	2008	2007
Current Assets	\$ 43,034,220	\$ 47,629,493
Noncurrent Assets		
Capital Assets	119,555,484	101,943,591
Other Noncurrent Assets	12,611,742	11,387,540
Total Assets	175,201,446	160,960,624
Current Liabilities	14,855,456	12,421,129
Noncurrent Liabilities	42,784,661	47,481,767
Total Liabilities	57,640,117	59,902,896
Net Assets		
Invested in Capital assets, Net of Related Debt	81,215,105	72,433,134
Restricted	24,804,486	18,374,885
Unrestricted	11,541,738	10,249,709
Total Net Assets	\$ 117,561,329	\$ 101,057,728

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

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

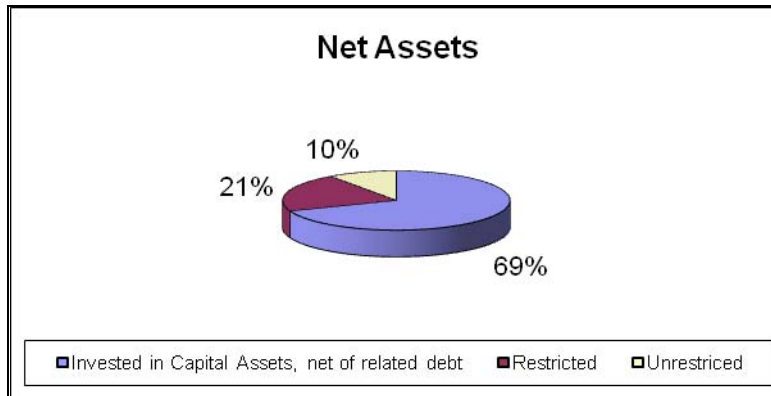
	2008	2007
Operating Revenues		
Tuition and Fees, Net	\$ 18,587,627	\$ 17,135,747
Federal and State Grants and Contracts	10,808,071	9,250,409
Private Grants and Contracts	1,495,782	1,288,211
Auxiliary Enterprises, Net	12,108,229	10,941,669
Other Operating Revenues	338,949	701,981
	43,338,658	39,318,017
Operating Expenses	85,075,759	81,523,822
Operating Loss	(41,737,101)	(42,205,805)
Nonoperating Revenues (Expenses)		
State Appropriations	48,664,927	40,966,621
Investment Income	2,322,000	2,503,417
Interest on Capital Asset-Related Debt	(2,013,312)	(2,012,921)
Other Nonoperating (Expenses)	(138,031)	(246,391)
	48,835,584	41,210,726
Gain (Loss) before Other Revenues and Transfers	7,098,483	(995,079)
Capital Appropriations and Grants	7,712,800	7,859,799
Capital Contributions	55,061	79,447
Capital Facilities Fee	1,637,257	1,396,144
Increase in Net Assets	16,503,601	8,340,311
Net Assets, Beginning of Year	101,057,728	92,717,417
Net Assets, End of Year	\$ 117,561,329	\$ 101,057,728

NEBRASKA STATE COLLEGE SYSTEM
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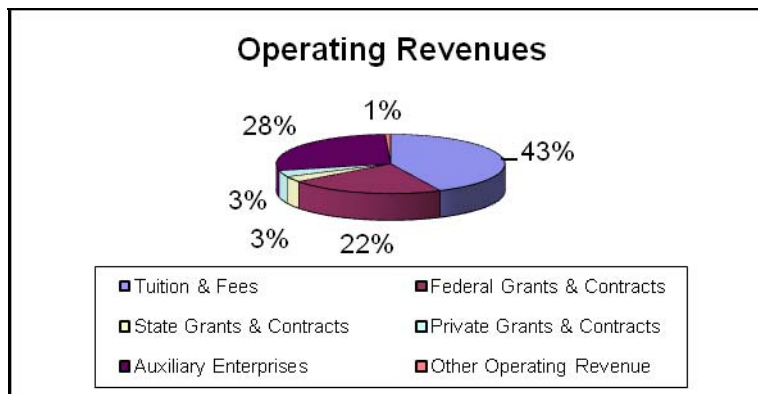
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

CHANGES IN NET ASSETS

At June 30, 2008, the NSCS had net assets of \$117.5 million, an increase of \$16.5 million or 16.3% over 2007. The net assets were comprised of Unrestricted - \$11.5 million; Restricted - \$24.8 million, and Invested in Capital Assets, Net of Related Debt - \$81.2 million.



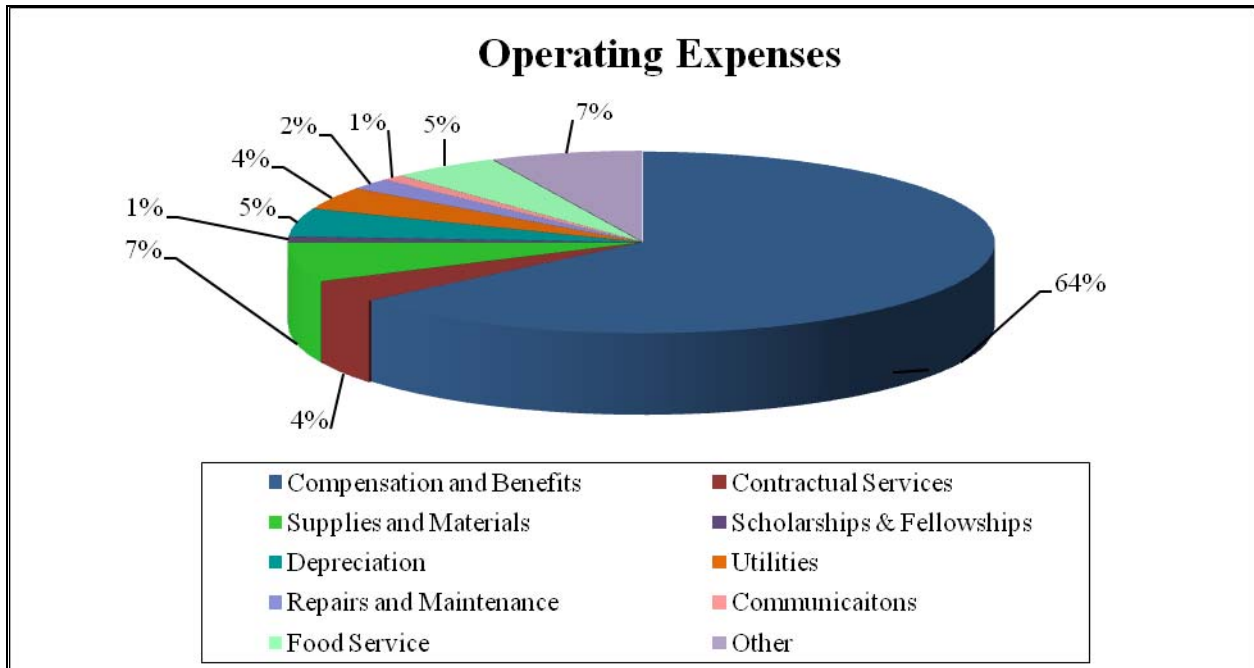
The operating revenues were \$43.3 million, compared to \$39.3 million in 2007, a 10.2% increase. Operating revenues include \$18.6 million in tuition and fees; Federal grants and contracts of \$9.5 million; State grants and contracts of \$1.3 million; private grants and contracts of \$1.5 million, auxiliary enterprises (net) of \$12.1 million, and other operating revenues of \$.3 million.



NEBRASKA STATE COLLEGE SYSTEM
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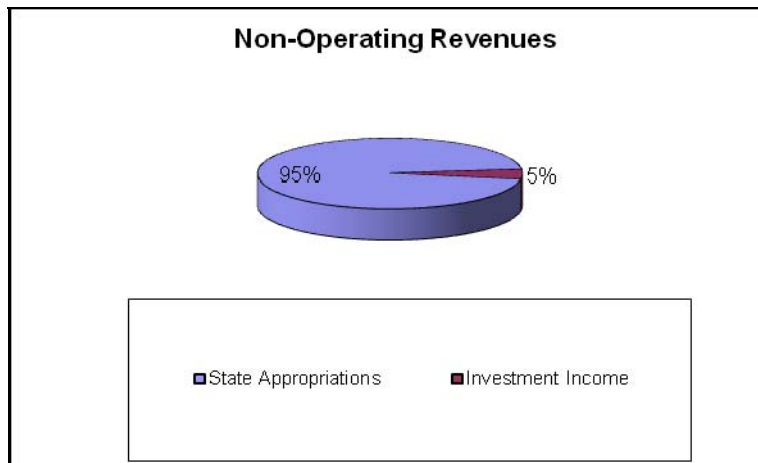
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Operating expenses for the year ended June 30, 2008, amounted to \$85.1 million, compared to \$81.5 million in 2007. Compensation and benefits accounted for \$54.4 million, or 63.9% of the total; contractual services were \$3.6 million; supplies and materials, \$5.5 million; scholarships and fellowships, \$0.8 million; depreciation, \$4.3 million; utilities, \$3.7 million; repairs and maintenance, \$1.9 million; communications, \$0.8 million; food service, \$4.2 million; and other operating expenses, \$5.9 million.



The current year operating loss amounted to \$41.7 million, compared to an operating loss in 2007 of \$42.2 million.

Non-operating revenues consist primarily of State appropriations and investment income.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The most significant change from the fiscal year ended June 30, 2007, to the fiscal year ended June 30, 2008, includes an increase in net capital assets, most of which is related to buildings and improvements. For previously existing bond issues, a total of \$3.8 million in long-term debt was paid. Tuition and fee income increased by \$1.5 million (8.5%) related to an increase in tuition and fee rates as well as increased enrollments. Federal and State Grants and Contracts increased \$1.6 million, or 16.8%. Private Grants and Contracts increased \$0.2 million (16.1%) from 2006-07 to 2007-08. Auxiliary Enterprise revenues were up \$1.2 million, or 10.7% 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 13.2%. Non-operating revenues increased, with a \$7,698,306 increase in state appropriations, of which \$5,556,000 is a one-time appropriation related to the NSCS's new administrative software. The increase in ongoing support for the state appropriation was approximately 5.5%. In addition, there was a 7.2% decrease in investment income. This decrease in investment income would partially be due to a significant decrease in the amount of construction funds invested, as many projects related to the large LB605 bond issue are nearing completion. Operating expenses for the year ended June 30, 2008, increased by \$3.6 million, or 4.4%. Approximately \$3.0 million or nearly all 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 7.6% increase in premiums for 2007-08. Utility costs decreased 6.3%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2008, the NSCS had recorded \$184.3 million in gross capital assets. During the fiscal year ended June 30, 2008, the investment in buildings and improvements increased by \$6.4 million; the investment in infrastructure increased by \$0.9 million; furniture, fixtures, and equipment increased by \$0.7 million; library materials increased by \$0.4 million; art increased by less than \$0.1 million; construction in progress increased by \$13.1 million; and land increased by \$0.1 million. At the end of the fiscal year, the NSCS had \$64.7 million in accumulated depreciation that left \$119.6 million in net capital assets.

At the end of the fiscal year, the NSCS had \$48.5 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$44.8 million and \$2.6 million in accrued compensated absences. Previously existing bond obligations were reduced by \$3.8 million.

Important capital improvements to the NSCS facilities continued through the fiscal year, with funding from State allocations, bonding, student fees, private funds, and revenue bond funds. At Chadron State College, Sparks Hall is substantially complete. This project converted the building to administrative offices for the campus. The Chadron State College Academic/Administration Building project provides for full renovation of the Academic/Administration building. The project is underway and beyond the 50% mark in construction as of June 30, 2008. The Chadron State Street/Drainage Improvement project will provide for street improvements as well as curb and gutter improvements. The project is

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

currently in the planning stages. The Peru State College Emergency Power Generator project provides emergency power generation for three vital buildings on the campus in the event of catastrophic power failure. The project was nearing substantial completion as of June 30, 2008. The Peru State College Al Wheeler Activity Center Renovation/Addition and Bleachers Replacement project will offer students and staff of Peru State College a newly remodeled and expanded athletic facility, including new spectator bleachers for varsity athletic events. The project is nearing substantial completion as of June 30, 2008. The Wayne State College Campus Services Building Renovation/Addition project provides for combined facility support operations at the college in modernized and expanded facilities as well as provide for campus network services. The project is now substantially complete. The Wayne State College Memorial Stadium and Rice Auditorium Improvements will renovate the lower level of Rice Auditorium for academic offices and classroom space, and will also renovate Memorial Stadium for use as a weight room, locker rooms, and coaches' offices. Construction is beyond the 50% mark as of June 30, 2008. The Wayne State College Street Improvement project includes reconstruction of two primary access points for the college as well as improvements to existing streets and curbs. The project is now complete. The Wayne State College Carhart Science renovation project is in the first phase of multiple phases of renovation planned for the building. Phase I includes funding from LB605, the LB309 building renewal task force, college cash funds, and privately raised funds. Various deferred repair, and fire and life safety upgrades are in progress at all three colleges.

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

ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE

The funding picture was improved for the NSCS for the year ending June 30, 2008. The appropriation was increased 5.5% over the previous year. For fiscal year 2007-08, the tuition increase was 7.3%, and the undergraduate per-credit-hour tuition rate was \$110.00, a very competitive level regionally. The state appropriation for 2008-09 is increased an additional 5.3% and tuition is increased by 5.9% to \$116.50 for resident undergraduates, which remains competitive.

Enrollment at the State colleges increased by 2.4% (annual FTE) in 2007-08, and fall enrollments are again higher for 2008-09. The NSCS continues to engage in an increased emphasis on enrollment management and marketing. Planning continues with Northeast Community College to provide better service to students in the growing region around South Sioux City, which would meet with the goals of the LR 174 Committee to attract more students to Nebraska and educate them here, thus increasing the workforce and improving economic development. The 2007 Legislature approved Wayne State College's share of the funding for a new shared facility in South Sioux City, with construction anticipated to be complete in fiscal year 2010-11.

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

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

The NSCS has completed a number of renovations to classroom and residential facilities, which continue to make the campuses attractive to both new and current students. In April of 2006, the Legislature approved and the Governor signed LB 605, which provides intent to appropriate \$1,125,000 annually to the Board of Trustees for a period of 14 years beginning July 1, 2006 and continuing through the fiscal year ending June 30, 2020, to undertake maintenance, repair and renovation projects at the State Colleges. Matching funds of \$200,000 in 2006-07 and \$400,000 in 2007-08 have already been provided and future matching funds are required by the Board of Trustees in the amount of \$600,000 in 2008-09 and \$1,200,000 for each of the remaining 11 years. The matching funds are provided from the State Colleges Capital Improvement Fund, which is derived from a per-credit-hour charge on all students attending a state college. LB 605 (2006) authorized the Nebraska State College Facilities Corporation to issue bonds for eligible projects. Current projects approved by the Board of Trustees include:

Chadron Academic/Administration Building renovation	\$ 4,865,322
Chadron Street/Drainage Project	500,000
Peru emergency power generator	832,500
Peru AWAC renovation/addition & bleachers replacement	5,530,473
Wayne Campus Services Building renovation/addition	5,185,466
Wayne Memorial Stadium/Rice Auditorium lower level Renovation	3,766,611
Wayne Carhart Science Renovation, Phase I	500,000
Wayne Street Improvement Project	<u>1,516,000</u>
	\$ 22,696,372

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2008

Assets

Current Assets

Cash and Cash Equivalents	\$ 17,164,775
Restricted Cash and Cash Equivalents	16,977,260
Investments Held by Trustee	764,908
Accounts Receivable, Net of Allowance	633,757
State Grants and Appropriations Receivable	6,377,001
Other Receivables	291,474
Inventories	150,457
Loans to Students, Net	478,901
Prepaid Expenses	189,457
Deposits with Vendors	6,230
	43,034,220
Total Current Assets	43,034,220

Noncurrent Assets

Restricted Cash and Cash Equivalents	8,335,767
Restricted Investments Held by Trustee	1,434,030
Investment Income Receivable	11,932
Loans to Students, Net	2,110,912
Capital Assets, Net	119,555,484
Deferred Bond Issue Costs, Net	719,101
	132,167,226
Total Noncurrent Assets	132,167,226
Total Assets	175,201,446

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	7,541,762
Accrued Compensated Absences	402,867
Other Liabilities	186,360
Deferred Revenue	317,238
Interest Payable	911,924
Long-term Debt - Current Portion	5,112,720
Deposits Held in Custody for Others	382,585
	14,855,456
Total Current Liabilities	14,855,456

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2008

Noncurrent Liabilities

Accrued Compensated Absences	2,163,513
Unamortized Bond Premium	280,971
Other Noncurrent Liabilities	640,018
Long-term Debt	<u>39,700,159</u>
 Total Noncurrent Liabilities	 <u>42,784,661</u>
 Total Liabilities	 <u>57,640,117</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	81,215,105
Restricted for:	
Expendable	
Loans	3,058,984
Debt service	12,673,259
Other	9,072,243
Unrestricted	<u>11,541,738</u>
 Total Net Assets	 <u><u>\$ 117,561,329</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, 2008

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	343,192
Cash and Cash Equivalents - Restricted		375,991
Investments		9,152,066
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$24,669 for 2008		276,569
Assets Held for Sale		30,863
Other Assets		2,470,045
Property and Equipment, Net of Accumulated Depreciation		378,644
TOTAL ASSETS	\$	13,027,370

LIABILITIES AND NET ASSETS

Accounts Payable	\$	-
Wages Payable		37,143
Scholarships Payable		403,182
Deferred Revenue		12,124
Due to Other Agencies		652,894
TOTAL LIABILITIES		1,105,343
Unrestricted Net Assets:		
Operating Fund (Deficit)		(36,565)
CSC Endowment		363,616
Temporarily Restricted Net Assets:		
Donor Designated		2,195,744
Named Endowment Activity		855,301
Athletic Endowment		47,696
Permanently Restricted Net Assets:		
Named Endowment		8,496,235
TOTAL NET ASSETS		11,922,027
TOTAL LIABILITIES AND NET ASSETS	\$	13,027,370

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, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	232,394
Unconditional Promises to Give		12,222
Student Loans Receivable, Less Allowance for Doubtful Accounts of \$8,325		6,586
Interest Receivable		14,007
Prepaid Expenses		75,325
Current Portion of Notes Receivable		45,644
Total Current Assets		386,178

PROPERTY AND EQUIPMENT

Land		65,115
Office Furniture and Fixtures		33,444
Rental Property		169,618
Vehicles		13,969
Total Property and Equipment		282,146
Less Accumulated Depreciation		48,037
Net Property and Equipment		234,109

OTHER ASSETS

Investments		10,093,554
Notes Receivable, Less Current Portion		295,568
Total Other Assets		10,389,122
Total Assets	\$	11,009,409

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	4,265
Accrued Compensation		58,024
Refundable Deposits		53,392
Current Portion of Gift Annuity		28,692
Total Current Liabilities		144,373

LONG-TERM LIABILITIES

Gift Annuity, Less Current Portion		190,108
Deferred Compensation Payable		273,098
Total Long-Term Liabilities		463,206
Total Liabilities		607,579

NET ASSETS

Unrestricted Net Assets:		
Operating		2,792,286
Board Designated		739,354
Total Unrestricted Net Assets		3,531,640
Temporarily Restricted		2,380,807
Permanently Restricted		4,489,383
Total Net Assets		10,401,830
Total Liabilities and Net Assets	\$	11,009,409

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, 2008

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	29,344
Cash and Cash Equivalents - Restricted		187,602
Accrued Interest		1,214
Prepaid Expenses & Misc. Receivables		1,400
Unconditional Promises to Give		1,211,943
Investments		12,620,830
Real Estate		118,000
Cash Value Life Insurance		174,761
Assets Restricted for Annuity Contracts		
Investments		911,355
Real Estate		105,000
Assets Held in Perpetual Trust		
Investments		845,568
		845,568
TOTAL ASSETS	\$	16,207,017
		16,207,017

LIABILITIES & NET ASSETS

Accounts and Faculty Grants Payable	\$	14,113
Deferred (Unearned) Event Revenue		6,750
Annuities Payable		503,559
Total Liabilities		524,422

Net Assets:

Unrestricted:		
Undesignated		1,586,089
Designated		203,362
Total Unrestricted Net Assets		1,789,451
Temporarily Restricted		4,125,260
Permanently Restricted		9,767,884
Total Net Assets		15,682,595
TOTAL LIABILITIES AND NET ASSETS	\$	16,207,017
		16,207,017

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, 2008

Operating Revenues	
Tuition and Fees, Net	\$ 18,587,627
Federal Grants and Contracts	9,483,492
State Grants and Contracts	1,324,579
Private Grants and Contracts	1,495,782
Auxiliary Enterprises, Net	12,108,229
Other Operating Revenues	338,949
	<hr/>
Total Operating Revenues	43,338,658
	<hr/>
Operating Expenses	
Compensation and Benefits	54,375,522
Contractual Services	3,632,526
Supplies and Materials	5,515,906
Scholarships and Fellowships	837,152
Depreciation	4,297,362
Utilities	3,668,177
Repairs and Maintenance	1,896,996
Communications	822,115
Food Service	4,194,930
Other	5,835,073
	<hr/>
Total Operating Expenses	85,075,759
	<hr/>
Operating Loss	(41,737,101)
	<hr/>
Nonoperating Revenue (Expenses)	
State Appropriations	48,664,927
Investment Income	2,322,000
Interest on Capital Asset-Related Debt	(2,013,312)
Other Nonoperating Expense	(138,031)
	<hr/>
Net Nonoperating Revenue	48,835,584
	<hr/>
Loss Before Other Revenues, Expenses, Gains or (Losses)	7,098,483
Capital Facilities Fees	1,637,257
Capital Contributions	55,061
Capital Appropriations and Grants	7,712,800
	<hr/>
Increase in Net Assets	16,503,601
Net Assets, Beginning of Year	101,057,728
	<hr/>
Net Assets, End of Year	\$ 117,561,329
	<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)
CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

REVENUES, GAINS (LOSSES), AND OTHER SUPPORT	
Fundraising Income	\$ 629,705
Principle Contributions to Named Endowments	594,583
Management Fees	180,948
State Income	173,007
Unrealized Loss on Investments	(771,058)
Realized Gain on Investments	117,322
Change in the Value of Trusts	(396,562)
Interest and Dividend Income	302,455
Event Income	9,737
Miscellaneous Income	59,403
	899,540
Total Revenues, Gains (Losses), and Other Support	899,540
Transfer Between Net Assets	-
Net Assets Released From Restrictions	-
	-
Total Support and Reclassifications	899,540
EXPENSES	
Program Services	865,062
General and Management	297,076
Fundraising	301,111
	1,463,249
Total Expenses	1,463,249
INCREASE (DECREASE) IN NET ASSETS	(563,709)
NET ASSETS BEGINNING OF YEAR	12,485,736
NET ASSETS ENDING	\$ 11,922,027

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, 2007

REVENUES, GAINS, AND ASSETS RELEASED FROM RESTRICTIONS	
Contributions	\$ 1,012,649
Special Events	17,294
Interest and Dividends	348,897
Realized Gain on Sale of Investments	349,832
Unrealized Gain (Loss) on Investments	(66,494)
Miscellaneous Income	13,042
Net Assets Released From Restrictions	<u>-</u>
Total Revenues, Gains, and Assets Released From Restrictions	<u>1,675,220</u>
EXPENSES	
Program Expenses	301,361
Management Expenses	652,272
Fundraising Expenses	<u>92,079</u>
Total Expenses	<u>1,045,712</u>
INCREASE (DECREASE) IN NET ASSETS	<u>629,508</u>
NET ASSETS - BEGINNING OF YEAR	<u>9,772,322</u>
NET ASSETS - END OF YEAR	<u><u>\$ 10,401,830</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)
WAYNE STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

REVENUES AND OTHER SUPPORT	
Gift/Contributions Income	\$ 3,049,392
Interest and Dividends	293,889
Net Gain (Loss) on Investments	(655,491)
Reinvestment of earnings	-
Endowment Fees	-
Other Non Gift Income	197,078
	2,884,868
Total Revenue and Other Support	2,884,868
Net Assets Released From Restrictions	-
EXPENSES	
General and Administrative	183,231
Fundraising	318,502
Program Expenses	1,316,680
	1,818,413
Total Expenses Before Amortization	1,818,413
Amortization of Annuity Contracts	58,704
Total Expenses	1,877,117
NET INCREASE (DECREASE) IN NET ASSETS	1,007,751
NET ASSETS, BEGINNING OF YEAR	14,674,844
NET ASSETS, END OF YEAR	\$ 15,682,595

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, 2008

Operating Activities

Tuition and Fees	\$ 18,584,969
Grants and Contracts	12,303,852
Payments to Suppliers	(20,938,321)
Payments for Utilities	(3,878,483)
Payments to Employees	(54,111,097)
Loans Issued to Students	(480,671)
Collections of Loans to Students	550,170
Sales and Services of Auxiliary Enterprises	12,108,750
Other Receipts (Payments)	(223,172)
	(36,084,003)

Noncapital Financing Activities

State Appropriations	43,208,540
Grants and Contracts	(55,352)
Other Receipts (Payments)	(71,625)
	43,081,563

Capital and Related Financing Activities

Receipt from State for Capital Purchases	3,534,360
Proceeds from Capital Debt	(34,841)
Purchase of Capital Assets	(21,235,471)
Principal Paid on Capital Debt	(3,740,000)
Interest Paid on Capital Debt	(2,106,844)
Capital Facilities Fees	5,791,773
Transfers Out	(239,968)
Other	30,944
Capital Contributions	55,061
Net cash Provided by Capital and Related Financing Activities	(17,944,986)

Investing Activities

Purchase/sale of Investments	688,008
Investment Income	2,408,648
	3,096,656

Increase in Cash and Cash Equivalents

(7,850,770)

Cash and Cash Equivalents, Beginning of Year

50,328,572

Cash and Cash Equivalents, End of Year

\$ 42,477,802

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2008

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

Cash and Cash Equivalents	\$ 17,164,775
Restricted Cash and Cash Equivalents - Current	16,977,260
Restricted Cash and Cash Equivalents - Noncurrent	8,335,767
	8,335,767
Total Cash and Cash Equivalents	\$ 42,477,802

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

Operating Loss	\$ (41,737,101)
Depreciation Expense	4,297,362
Changes in Operating Assets and Liabilities	
Receivables, Net	(13,525)
Inventories	5,552
Accounts Payable and Accrued Liabilities	966,257
Accrued Compensated Absences	226,567
Other Assets and Liabilities	170,885
	170,885
Net Cash Used in Operating Activities	\$ (36,084,003)

Supplemental Cash Flows Information

Accounts Payable Incurred for Capital Asset Purchases	\$ 1,730,362
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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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ (563,709)
Adjustments to Reconcile Increase (Decrease) in Net Assets	
To Net Cash Provided by Operating Activities	
Depreciation	10,188
Unrealized Gain on Investments	771,058
Realized Gain on Sale of Investments	(117,322)
Change in the Value of Trusts	396,562
Proceeds from Contributions Restricted for	
Investment in Named Endowments	(546,887)
(Increase) Decrease In:	
Contributions Receivable	(52,215)
In-Kind Receivables	-
Increase (Decrease) In:	
Accounts Payable	(14,091)
Wages Payable	1,556
Scholarships Payable	62,919
Deferred Revenue	(2,035)
Due to Other Agencies	147,988
	94,012

CASH FLOWS FROM INVESTING ACTIVITIES

Increase (Decrease) in Cash Surrender Value of Life Insurance	1,214
Proceeds From Sale of Investments	1,046,688
Purchase of Investments	(1,553,777)
Purchase of Property	(1,373)
Proceeds From the Redemption of Life Insurance	5,135
	(502,113)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Contributions Restricted for	
Investment in Named Endowments	546,887
	546,887

Net Increase (Decrease) in Cash and Equivalents 138,786

CASH AND EQUIVALENTS BEGINNING OF YEAR

580,397

CASH AND EQUIVALENTS END OF YEAR

\$ 719,183

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and Equivalents - Unrestricted	\$ 343,192
Cash and Equivalents - Restricted	375,991
	719,183
Total Cash and Equivalents	\$ 719,183

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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ 629,508
Adjustments to Reconcile Increase (Decrease) in Net Assets to	
Net Cash Used in Operating Activities:	
Depreciation	4,105
Unrealized Loss/(Gain) on Investments	66,494
Realized Gain on Sale of Investments	(349,832)
Contributed Investments	(27,152)
Deferred Compensation	67,382
Changes in Current Assets and Current Liabilities:	
Decrease (Increase) in Unconditional Promises to Give	-
Decrease in Student Loans Receivable	1,101
Decrease in Interest Receivable	(8,804)
(Increase) Decrease in Prepaid Expenses	25,675
Increase (Decrease) in Accounts Payable	(15,584)
Increase in Accrued Compensation	6,618
(Decrease) Increase in Refundable Deposits	(2,732)
Net Cash Used in Operating Activities	<u>396,779</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds From Sale of Investments	529,184
Purchases of Investments	(727,152)
Payments Received on Notes Receivable	26,966
Additions to Notes receivable	(250,000)
Purchases of Property and Equipment	(1,169)
Net Gift Annuity Payments (Contributions)	15,550
Net Cash Provided By Investing Activities	<u>(406,621)</u>

Net (Decrease) Increase in Cash and Cash Equivalents	<u>(9,842)</u>
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CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>242,236</u>
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CASH AND EQUIVALENTS - END OF YEAR	<u><u>\$ 232,394</u></u>
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The accompanying notes are an integral part of the financial statements.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
WAYNE STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 1,007,751
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	5,500
Amortization of Annuity Obligations	58,704
Non Cash Contributions	(155,461)
Net Loss (Gain) on Investments & (Reinvested Income)	655,491
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable/Prepays & Misc. Receivables	1,251
Unconditional Promises to Give	211,017
Cash Value Life Insurance	(9,661)
Increase (Decrease) in Operating Non-Cash Liabilities:	
Accounts Payable/Faculty Grants Payable	(5,109)
Net Cash Provided by Operating Activities	1,769,483

CASH FLOWS FROM INVESTING ACTIVITIES

Net (Purchases) of Investments	(1,839,276)
Net Cash (Used) by Investing Activities	(1,839,276)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Annuity Contracts	113,724
Payments on Annuity Contracts	(73,562)
Net Cash Provided (Used) by Financing Activities	40,162

NET CHANGE IN CASH & CASH EQUIVALENTS

	(29,631)
Cash & Cash Equivalents, Beginning of Year	246,576

CASH & CASH EQUIVALENTS, END OF YEAR

	\$ 216,945
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The accompanying notes are an integral part of the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2008

1. Summary of Significant Accounting Policies

Organization

The Nebraska State College System (NSCS) is a governmental institution established under and governed by the laws of the State of Nebraska. The NSCS operates under the jurisdiction of the Board of Trustees of the Nebraska State Colleges. The NSCS includes Wayne State College (WSC), Chadron State College (CSC), Peru State College (PSC), the NSCS Office, and the Nebraska State College Facilities Corporation (a blended component unit). The NSCS is a component unit of the State of Nebraska (State) because it is financially accountable to the State. The financial statements include all funds of the NSCS. The major accounting principles and practices followed by the NSCS and its separately reported foundation component units are presented below to assist the reader in evaluating the financial statements and accompanying notes.

Reporting Entity

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

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

Blended Component Unit

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

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

NOTES TO THE 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, 2008, Chadron State and Wayne State Foundations distributed \$652,894 and \$1,237,561, respectively to their colleges; and during the year ended December 31, 2007, Peru State Foundation distributed \$432,488 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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

The NSCS Cash and Cash Equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the NSCS based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which make use of amounts on deposit from the NSCS. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSCS and as such are not included in the financial statements for the year ended June 30, 2008.

The NSCS considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2008, cash equivalents consisted primarily of money market funds.

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

Income Tax Status

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

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

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

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

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

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, unrealized, and realized gains and losses are allocated to the pool participants using the market value method.

The market value method assigns a number of units to each pool participant based on the relationship of the individual investments to the total investments at the time the investments are pooled.

Investments are reported at fair value.

Wayne State Foundation investments are composed of mutual funds, debt and equity securities, realty fund limited liability company, money market accounts, 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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

At June 30, 2008, the Foundation had market risk from concentration of investments in cash equivalents and investments with Common fund of \$11,731,301, which represents 85% 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 \$411,264 at June 30, 2008, and is identified by college as follows:

WSC	\$ 186,564
CSC	\$ 115,000
PSC	\$ 109,700

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, 2008, was \$719,101, and is identified by college as follows:

WSC	\$ 95,160
CSC	\$ 143,505
PSC	\$ 26,484
NSCS Office	\$ 453,952

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 \$203,445 at June 30, 2008, and is identified by college as follows:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

WSC	\$	135,445
CSC	\$	65,000
PSC	\$	3,000

Capital Assets

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

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

Compensated Absences

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the NSCS, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State, or nongovernmental programs, are recorded as operating revenues in the NSCS's financial statements. To the extent revenues from such programs are used to satisfy tuition and fees and other student charges, the NSCS has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended June 30, 2008, were \$8,605,159 and \$2,879,518, respectively and are identified by college as follows:

	Tuition and Fees	Auxiliary Enterprises
WSC	\$ 3,846,081	\$ 1,776,704
CSC	\$ 1,961,692	\$ 419,688
PSC	\$ 2,797,386	\$ 683,126

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Deposits, Investments, and Investment Return

Deposits

All of the NSCS's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the Federal depository insurance coverage level are collateralized with securities held by the NSCS's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. By State Statute, the Treasurer is required to ensure that all State funds are either insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The NSCS's deposits with the Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, deposited in banks or invested as the Treasurer may determine. Interest on funds held by the State Treasurer is periodically disbursed to the participating agencies. These funds are considered to be cash and cash equivalents which are available for expenditures as needed.

Additional information on the deposit and investments portfolio including investment policies, risk, and type of investment can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008.

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

At June 30, 2008, the carrying value of the NSCS's bank deposits was \$17,637,662 and the bank balance was \$17,614,223. The bank balance at June 30, 2008, 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, 2008, the NSCS's investment balances, which had maturities of less than one to five years, had fair values as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Investment Type		
Debt Securities		
Federal Home Loan Bank Securities	\$	1,137,147
Federal National Mortgage Association Securities		764,908
		<hr/> 1,902,055
Other Investments		
Equity Securities		296,883
	\$	<hr/> 2,198,938

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

Credit Risk. The NSCS may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. The NSCS investments in U.S. agencies were rated AAA.

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 52% are in Federal Home Loan Bank Securities, 35% are Federal National Mortgage Association Securities, and 13% are Equity Securities.

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

Summary of Fair Values

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Fair Value	
Cash	\$ 543,534
Deposits:	
Bank Deposits	17,637,662
Short Term Investment Pool	24,296,606
Investments	<u>2,198,938</u>
Total as of June 30, 2008	<u><u>\$ 44,676,740</u></u>

Included in the Statement of Net Assets

Cash and Cash Equivalents	\$ 17,164,775
Restricted Cash and Cash Equivalents	25,313,027
Investments held by Trustee	<u>2,198,938</u>
	<u><u>\$ 44,676,740</u></u>

The Chadron State Foundation's investments are stated at fair value and are shown below as of June 30, 2008:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
LLC Groups:			
MGA Diversified Core Equity LLC	\$ 1,243,159	\$ 2,062,138	\$ 818,979
MGA Focused Core Equity LLC	776,673	860,128	83,455
MGA Diversified Sm/Mid Cap Equity LLC	378,738	771,519	392,781
MGA Focused Small Cap Equity LLC	419,774	399,943	(19,831)
MGA International Equity LLC	591,582	844,059	252,477
MGA Cash Reserves LLC	395,174	452,744	57,570
MGA Core Income LLC	1,592,913	1,919,601	326,688
MGA Total Return LLC	1,020,595	1,397,272	376,677
MGA Tactical Opportunity	455,000	444,662	(10,338)
Total Investment	<u><u>\$ 6,873,608</u></u>	<u><u>\$ 9,152,066</u></u>	<u><u>\$ 2,278,458</u></u>

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

NOTES TO THE 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, 2007.

	<u>Cost</u>	<u>Gross Unrealized Gain/(Loss)</u>	<u>Fair Market Value</u>
Fixed Income Funds:			
MGA Cash Reserves, LLC	\$ 203,028	\$ 6,705	\$ 209,733
MGA Core Income, LLC	2,041,932	502,262	2,544,194
MGA Total Return, LLC	887,260	579,131	1,466,391
Equity Funds:			
MGA Diversified Core Equity, LLC	921,797	1,324,700	2,246,497
MGA Focused Core Equity	1,101,996	208,082	1,310,078
MGA Diversified Small/Mid Cap Equity, LLC	378,628	486,648	865,276
MGA Focused Small Cap Equity, LLC	373,565	(485)	373,080
MGA International Equity, LLC	365,669	712,636	1,078,305
Total Investment	<u>\$ 6,273,875</u>	<u>\$ 3,819,679</u>	<u>\$ 10,093,554</u>

The Wayne State Foundation's investments are reported at their fair value and are summarized as follows for the year ended June 30, 2008.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Money markets	\$ 43,687	\$ 1,468,046	\$ 318	\$ 1,512,051
Certificates of Deposit	44,785	-	105,853	150,638
Commonfund-Real Estate Fund	-	-	770,155	770,155
Commonfund-Equity Fund	765,332	-	6,159,844	6,925,177
Commonfund-Bond Fund	408,982	-	2,719,730	3,128,712
Subtotal Commonfund	<u>1,174,314</u>	<u>-</u>	<u>9,649,730</u>	<u>10,824,044</u>
Other Securities	-	49,203	84,893	134,096
Totals	<u>\$ 1,262,787</u>	<u>\$ 1,517,249</u>	<u>\$ 9,840,794</u>	<u>\$ 12,620,830</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Capital Assets

The NSCS capital assets activity for the year ended June 30, 2008 was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Revaluations</u>	<u>Ending Balance</u>
Land	\$ 566,575	\$ 122,749	\$ -	\$ -	\$ 689,324
Building and Improvements	122,509,180	6,411,742	-	(1)	128,920,921
Infrastructure	16,814,904	899,478	-	-	17,714,382
Furniture, Fixtures, and Equipment	4,021,606	888,555	200,007	-	4,710,154
Library Materials	9,169,778	465,489	82,924	-	9,552,343
Art	281,871	51,732	-	-	333,603
Construction in Progress	9,281,123	20,647,578	7,547,497	-	22,381,204
	<u>\$ 162,645,037</u>	<u>\$ 29,487,323</u>	<u>\$ 7,830,428</u>	<u>\$ (1)</u>	<u>\$ 184,301,931</u>

<u>Accumulated Depreciation</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Revaluations</u>	<u>Ending Balance</u>
Building and Improvements	43,999,570	2,791,098	-	-	46,790,668
Infrastructure	6,024,706	573,938	-	-	6,598,644
Furniture, Fixtures, and Equipment	2,633,720	484,827	169,437	-	2,949,110
Library Materials	8,043,450	447,499	82,924	-	8,408,025
Total Depreciation	60,701,446	4,297,362	252,361	-	64,746,447
Net Capital Assets	<u>\$ 101,943,591</u>	<u>\$ 25,189,961</u>	<u>\$ 7,578,067</u>	<u>\$ (1)</u>	<u>\$ 119,555,484</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Capital Assets (Concluded)

Net Assets by Facility	WSC	CSC	PSC	NSCS Office	Balance
Land	\$ 633,728	\$ 49,395	\$ 6,201	\$ -	\$ 689,324
Building and Improvements	34,994,235	26,088,563	21,047,454	-	82,130,252
Infrastructure	6,721,635	2,222,889	2,171,214	-	11,115,738
Furniture, Fixtures, and Equipment	696,696	679,144	385,204	-	1,761,044
Library Materials	398,187	566,230	179,901	-	1,144,318
Art	174,981	45,000	113,622	-	333,603
Construction in Progress	10,235,809	3,481,854	8,663,542	-	22,381,205
	<u>\$ 53,855,271</u>	<u>\$ 33,133,075</u>	<u>\$ 32,567,138</u>	<u>\$ -</u>	<u>\$ 119,555,484</u>

4. Long-Term Liabilities

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Loan Obligations Payable	\$ 250,000	\$ -	\$ 17,121	\$ 232,879	\$ 17,720
Revenue and Refunding Bonds	18,770,000	-	760,000	18,010,000	775,000
Facilities Corporation Bonds	29,550,000	-	2,980,000	26,570,000	4,320,000
Total Long-Term Debt Liabilities	<u>48,570,000</u>	<u>-</u>	<u>3,757,121</u>	<u>44,812,879</u>	<u>5,112,720</u>
Other Long-Term Liabilities:					
Accrued Compensated Absences	2,339,813	226,567	-	2,566,380	402,867
Unamortized Bond Premium	340,325	-	59,354	280,971	-
Other Liabilities	375,708	539,905	89,235	826,378	186,360
Total Other Long-Term Liabilities	<u>3,055,846</u>	<u>766,472</u>	<u>148,589</u>	<u>3,673,729</u>	<u>589,227</u>
Total Long-Term Liabilities	<u>\$ 51,625,846</u>	<u>\$ 766,472</u>	<u>\$ 3,905,710</u>	<u>\$ 48,486,608</u>	<u>\$ 5,701,947</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

Termination Benefits

NSCS has two programs which must be accounted under *GASB 47 Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program. Under the voluntary retirement program, employees who are 55 years of age or more on July 1, of the year in which he or she chooses to retire, and have ten or more years of consecutive service within the NSCS 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 NSCS during the 12-month period following termination of employment until the employee is Medicare eligible at which time the NSCS will pay an amount equivalent to the cost of the Gold Plus Medicare Supplemental Plan for the payout period remaining. Under the early retirement program employees who have completed at least ten years of continuous service within the NSCS and are 60 years of age or older will be paid the full cost (State and employee burden) of 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, 2008, eleven employees at WSC, two employees at PSC, seven employees at CSC, and one employee at the NSCS Office participated in NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. Liability amounts are reflected in the Accrued Compensated Absences line item on the Statement of Net Assets, the Combining Schedule of Net Assets, and the footnote amount above. All termination benefits are shown at present cost.

	Ending Balance	Current Portion
WSC	\$ 220,822	\$ 167,341
CSC	99,723	53,396
PSC	27,701	20,352
NSCS Office	6,999	6,999
Total	\$ 355,245	\$ 248,088

Student Fees and Facilities Revenue Bonds

In November 2003, the Board of Trustees of the NSCS 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'

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

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 WSC and CSC's portion of the bond obligation were \$1,825,000 and \$5,085,000, respectively, bearing interest at rates from 1.6% to 5.0%, with payments due from 2005 to 2028.

Student Fees and Facilities Revenue and Refunding Bonds

In August 2002, the Board of Trustees of the NSCS 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 PSC, WSC, and CSC'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 at their respective colleges. 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 PSC Library and Academic Resource Center Project and the WSC Energy Plant Project. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations. The bonds bear interest payable semiannually, at rates of 2.0% - 5.0% and are due in semiannual installments, which began September 1, 2002. Principal maturities began March 1, 2003, and continue until 2009.

In August 2006, the Nebraska State Colleges Facilities Corporation authorized the issuance of \$21,915,000 of Deferred Maintenance Bonds, Series 2006. Proceeds are used to finance the construction of certain renewal and renovation projects at each of the three colleges. 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 3.55% - 5.00% and are due in semiannual installments, which began January 15, 2007. Principal maturities began July 15, 2007, and continue until 2020.

PSC Loan Obligation

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

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

PSC Loan Obligation Payable			
Year Ending June 30	Principal	Interest	Total
2009	\$ 17,720	\$ 8,151	\$ 25,871
2010	18,340	7,531	25,871
2011	18,982	6,889	25,871
2012	19,647	6,224	25,871
2013	20,334	5,537	25,871
2014-2018	112,859	16,496	129,355
2019	24,996	875	25,871
Total	\$ 232,878	\$ 51,703	\$ 284,581

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

WSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2009	\$ 350,000	\$ 380,663	\$ 730,663
2010	360,000	369,219	729,219
2011	375,000	356,481	731,481
2012	385,000	342,529	727,529
2013	400,000	327,435	727,435
2014-2018	2,265,000	1,371,063	3,636,063
2019-2023	2,090,000	859,106	2,949,106
2024-2028	2,445,000	317,125	2,762,125
Total	<u>\$ 8,670,000</u>	<u>\$ 4,323,621</u>	<u>\$ 12,993,621</u>

CSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2009	\$ 320,000	\$ 274,046	\$ 594,046
2010	340,000	262,816	602,816
2011	345,000	250,483	595,483
2012	235,000	239,861	474,861
2013	200,000	231,823	431,823
2014-2018	1,110,000	1,030,259	2,140,259
2019-2023	1,385,000	741,931	2,126,931
2024-2028	1,785,000	336,525	2,121,525
2029	415,000	10,375	425,375
Total	<u>\$ 6,135,000</u>	<u>\$ 3,378,119</u>	<u>\$ 9,513,119</u>

PSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2009	\$ 105,000	\$ 145,040	\$ 250,040
2010	110,000	141,383	251,383
2011	110,000	137,422	247,422
2012	120,000	133,078	253,078
2013	120,000	128,368	248,368
2014-2018	680,000	561,651	1,241,651
2019-2023	860,000	384,515	1,244,515
2024-2028	1,100,000	142,500	1,242,500
Total	<u>\$ 3,205,000</u>	<u>\$ 1,773,957</u>	<u>\$ 4,978,957</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Concluded)

Facilities Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2009	\$ 4,320,000	\$ 1,148,374	\$ 5,468,374
2010	2,265,000	918,498	3,183,498
2011	1,455,000	837,982	2,292,982
2012	1,515,000	778,582	2,293,582
2013	1,575,000	716,781	2,291,781
2014-2018	9,015,000	2,385,250	11,400,250
2019-2022	6,425,000	411,734	6,836,734
Total	<u>\$ 26,570,000</u>	<u>\$ 7,197,201</u>	<u>\$ 33,767,201</u>

NSCS Bond Summary

Year Ending June 30	Principal	Interest	Total
2009	\$ 5,095,000	\$ 1,948,123	\$ 7,043,123
2010	3,075,000	1,691,916	4,766,916
2011	2,285,000	1,582,368	3,867,368
2012	2,255,000	1,494,050	3,749,050
2013	2,295,000	1,404,407	3,699,407
2014-2018	13,070,000	5,348,223	18,418,223
2019-2023	10,760,000	2,397,286	13,157,286
2024-2028	5,330,000	796,150	6,126,150
2029	415,000	10,375	425,375
Total	<u>\$ 44,580,000</u>	<u>\$ 16,672,898</u>	<u>\$ 61,252,898</u>

The bond resolutions of the Facilities Corporation Bonds, the Refunding Bonds, and the Revenue Bonds specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for the funds' investments. The bond resolutions also contain certain covenants, including compliance with a ratio of net revenues to debt service. At June 30, 2008, the NSCS was in compliance with these requirements.

5. Capital and Operating Leases

The State of Nebraska, through the Department of Administrative Services (DAS) – Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. PSC used this financing arrangement to finance the acquisition of a bus while CSC used this financing arrangement to finance the acquisition of two buses and a phone system. All capital leases entered into by PSC and CSC expire in 2013.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. Capital and Operating Leases (Concluded)

Future minimum capital lease payments for PSC and CSC as of June 30, 2008, were:

2009	\$	178,983
2010		179,427
2011		178,907
2012		179,115
2013		<u>106,762</u>
Total Minimum Payments	\$	823,194
Less: Interest and executor costs	\$	<u>67,798</u>
Present value of net minimum payments	\$	<u>755,396</u>

Noncancellable operating leases related primarily to learning facility expenses expire in various fiscal years through 2012. These leases generally contain renewal options for periods ranging from one to two years and require the NSCS to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future minimum operating lease payments at PSC as of June 30, 2008, were:

2009	\$119,790
2010	65,186
2011	14,116
2012	<u>625</u>
	<u>\$ 199,717</u>

6. Pension Plan

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board of Trustees and may be amended by legislative action. The plan covers all academic faculty, administrative, and classified staff, and provides investment options and annuity contracts administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Pension Plan (Concluded)

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 2008, expressed as a percentage of covered payroll, were 4.5% - 6.0% and 8%, respectively. Contributions actually made for the fiscal year ending June 30, 2008, by plan members and the NSCS aggregated were \$2,202,655 and \$2,941,012, respectively.

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

The NSCS also sponsors a supplemental retirement annuity plan. Plan members contributed \$946,516 in 2008. The NSCS does not contribute to this supplemental plan.

7. Risk Management

The NSCS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Responsibility for the coordination of a risk and insurance management program for the NSCS is assigned to the Chancellor. The responsibility for the development and implementation of the risk and insurance management program is assigned to each of the colleges' Presidents. Mechanisms for identifying risks and for taking appropriate action to eliminate, abate, transfer, or retain these risks is also the responsibility of each college. DAS – Risk Management Division is responsible for maintaining the self-insurance program for workers' compensation along with the motor vehicle liability insurance.

The NSCS has chosen to purchase insurance for:

- A. Health care and life insurance for eligible employees.
- B. General liability coverage, with limits ranging from \$1,000,000 per occurrence to \$5,000,000 in aggregate.
- C. Employee benefits liability, with a limit of \$1,000,000 per each employee and \$1,000,000 annual aggregate.
- D. Director and officer liability, with a limit of \$2,000,000 and a self-insured retention of \$100,000.
- E. Real and personal property on a blanket basis for losses up to \$500,000,000, with a deductible of \$1,000,000 per loss occurrence. Newly acquired properties are covered up to \$100,000,000 for 90 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Risk Management (Concluded)

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

8. Commitments and Contingencies

Construction Contracts

The Board of Trustees has authorized and approved construction commitments of \$7,200,842 as of June 30, 2008. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

WSC	\$ 3,589,856
CSC	\$ 1,923,072
PSC	\$ 1,687,914

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. Restricted Net Assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Restricted Net Assets (Concluded)

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

Other includes \$852,634 in funds set aside by the Board of Trustees for various endowments and student scholarships, \$7,097,672 in unexpended information system project authorizations, and \$211,073 in unexpended Facilities Corporation project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

10. Deferred Compensation (Peru State College Foundation)

On January 20, 2006, the Foundation entered into an agreement with the President of the College in recognition of the service, judgment, and demonstrated skills on behalf of both the College and the Foundation. As an inducement to the President to render continued service in the future on behalf of both organizations, the Foundation agreed to retroactively contribute \$60,000 annually for specific years beginning with the College's year end of June 30, 2004 through June 30, 2008.

Additionally, the Foundation is required to increase the funded balance at a rate of 9.06% each year through fiscal year 2007 and 8% in 2008. The Foundation funded the deferred compensation account in 2007 and 2006 with investments totaling \$273,098 and \$205,716, respectively, which includes estimated earnings of \$47,071 and \$25,716, respectively. The Foundation's deferred compensation expense for the years ended December 31, 2007 and 2006, was \$67,382 and \$205,716, respectively.

In the event of termination of the President's employment as a result of 1) the scheduled closure/dissolution of the College or Foundation, 2) a change in control of the College's ultimate governing body, 3) President's death, disability, or involuntary termination without good cause prior to conclusion of the 2007-2008 fiscal year, the deferred compensation account of the President shall immediately become 100% vested and non-forfeitable.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET ASSETS
June 30, 2008

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>TOTAL</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,236,612	\$ 4,720,448	\$ 10,201,692	\$ 6,023	\$ 17,164,775
Restricted cash and cash equivalents	1,422,196	1,044,803	408,837	14,101,424	16,977,260
Investments held by trustee	-	-	-	764,908	764,908
Accounts receivable, net of allowance	273,462	183,433	176,862	-	633,757
State grants and appropriations receivable	1,220	564,604	216,363	5,594,814	6,377,001
Other receivables	163,214	104,322	-	23,938	291,474
Inventories	29,238	38,752	82,467	-	150,457
Loans to students, net	219,736	2,982	256,183	-	478,901
Prepaid expenses	92,438	43,731	52,413	875	189,457
Deposits with vendors	-	-	6,010	220	6,230
Total current assets	<u>4,438,116</u>	<u>6,703,075</u>	<u>11,400,827</u>	<u>20,492,202</u>	<u>43,034,220</u>
Noncurrent Assets					
Restricted cash and cash equivalents	2,854,017	1,276,832	4,204,918	-	8,335,767
Restricted investments held by trustee	309,670	233,521	593,956	296,883	1,434,030
Investment income receivable	-	11,932	-	-	11,932
Loans to students, net	1,013,303	(3,000)	1,100,609	-	2,110,912
Capital assets, net	33,133,075	32,567,138	53,855,271	-	119,555,484
Deferred bond issue costs, net	143,505	26,484	95,160	453,952	719,101
Total noncurrent assets	<u>37,453,570</u>	<u>34,112,907</u>	<u>59,849,914</u>	<u>750,835</u>	<u>132,167,226</u>
	<u>\$ 41,891,686</u>	<u>\$ 40,815,982</u>	<u>\$ 71,250,741</u>	<u>\$ 21,243,037</u>	<u>\$ 175,201,446</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities	\$ 2,402,548	\$ 1,192,758	\$ 3,090,594	\$ 855,862	\$ 7,541,762
Accrued compensated absences	106,640	48,437	234,316	13,474	402,867
Other liabilities	137,942	48,418	-	-	186,360
Deferred revenue	207,133	32,578	77,527	-	317,238
Interest payable	139,662	76,498	193,046	502,718	911,924
Long-term debt - current portion	320,000	122,720	350,000	4,320,000	5,112,720
Deposits held in custody for others	156,590	84,722	141,273	-	382,585
Total current liabilities	<u>3,470,515</u>	<u>1,606,131</u>	<u>4,086,756</u>	<u>5,692,054</u>	<u>14,855,456</u>
Noncurrent Liabilities					
Accrued compensated absences	753,715	380,480	943,298	86,020	2,163,513
Unamortized bond premium	-	-	-	280,971	280,971
Other noncurrent liabilities	547,193	92,825	-	-	640,018
Long-term debt	5,815,000	3,315,159	8,320,000	22,250,000	39,700,159
Total noncurrent liabilities	<u>7,115,908</u>	<u>3,788,464</u>	<u>9,263,298</u>	<u>22,616,991</u>	<u>42,784,661</u>
Total liabilities	<u>10,586,423</u>	<u>5,394,595</u>	<u>13,350,054</u>	<u>28,309,045</u>	<u>57,640,117</u>
Net Assets					
Invested in capital assets, net of related debt	27,141,580	29,078,190	45,280,431	(20,285,096)	81,215,105
Restricted for					
Expendable					
Loans	1,336,761	316,061	1,406,162	-	3,058,984
Debt service	2,023,132	1,856,919	3,709,076	5,084,132	12,673,259
Other	281,794	341,192	253,616	8,195,641	9,072,243
Unrestricted	521,996	3,829,025	7,251,402	(60,685)	11,541,738
Total net assets	<u>\$ 31,305,263</u>	<u>\$ 35,421,387</u>	<u>\$ 57,900,687</u>	<u>\$ (7,066,008)</u>	<u>\$ 117,561,329</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, 2008

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Revenues					
Tuition and fees, net	\$ 4,538,842	\$ 4,527,324	\$ 9,521,461	\$ -	\$ 18,587,627
Federal grants and contracts	3,504,112	2,089,469	3,889,911	-	9,483,492
State grants and contracts	278,079	495,315	551,185	-	1,324,579
Private grants and contracts	666,957	408,274	420,551	-	1,495,782
Auxiliary enterprises, net	4,555,113	1,584,128	5,968,988	-	12,108,229
Other operating revenues	20,528	156,104	162,317	-	338,949
	<u>13,563,631</u>	<u>9,260,614</u>	<u>20,514,413</u>	<u>-</u>	<u>43,338,658</u>
Operating Expenses					
Compensation and benefits	18,313,332	10,179,915	24,886,268	996,007	54,375,522
Contractual services	1,343,685	423,543	1,807,436	57,862	3,632,526
Supplies and materials	3,228,000	698,036	1,589,870	-	5,515,906
Scholarships and fellowships	332,892	97,564	406,696	-	837,152
Depreciation	1,460,315	842,414	1,994,057	576	4,297,362
Utilities	1,004,846	773,449	1,889,882	-	3,668,177
Repairs and maintenance	922,506	331,049	643,441	-	1,896,996
Communications	318,346	217,660	286,109	-	822,115
Food service	1,441,774	904,053	1,849,103	-	4,194,930
Other	1,447,292	1,690,599	2,490,057	207,125	5,835,073
	<u>29,812,988</u>	<u>16,158,282</u>	<u>37,842,919</u>	<u>1,261,570</u>	<u>85,075,759</u>
Operating Loss	<u>(16,249,357)</u>	<u>(6,897,668)</u>	<u>(17,328,506)</u>	<u>(1,261,570)</u>	<u>(41,737,101)</u>
Nonoperating Revenue (Expenses)					
State appropriations	14,914,810	8,537,421	18,394,475	6,818,221	48,664,927
Investment income	354,021	307,165	760,257	900,557	2,322,000
Interest on capital asset-related debt	(302,664)	(148,427)	(390,835)	(1,171,386)	(2,013,312)
Other nonoperating revenue (expense)	(89,545)	17,920	(22,440)	(43,966)	(138,031)
	<u>14,876,622</u>	<u>8,714,079</u>	<u>18,741,457</u>	<u>6,503,426</u>	<u>48,835,584</u>
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	<u>(1,372,735)</u>	<u>1,816,411</u>	<u>1,412,951</u>	<u>5,241,856</u>	<u>7,098,483</u>
Capital Facilities Fees	-	-	-	1,637,257	1,637,257
Capital Contributions	-	-	55,061	-	55,061
Operating Transfers In (Out)	2,615,252	5,190,355	5,470,283	(13,275,890)	-
Capital Appropriations and Grants	<u>1,293,015</u>	<u>1,797,339</u>	<u>1,088,086</u>	<u>3,534,360</u>	<u>7,712,800</u>
Increase in Net Assets	2,535,532	8,804,105	8,026,381	(2,862,417)	16,503,601
Net Assets, Beginning of Year	<u>28,769,731</u>	<u>26,617,282</u>	<u>49,874,306</u>	<u>(4,203,591)</u>	<u>101,057,728</u>
Net Assets, End of Year	<u>\$ 31,305,263</u>	<u>\$ 35,421,387</u>	<u>\$ 57,900,687</u>	<u>\$ (7,066,008)</u>	<u>\$ 117,561,329</u>

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
June 30, 2008

	Chadron	Peru	Wayne	Board of Trustees	Total
Operating Activities					
Tuition and fees	\$ 4,606,418	\$ 4,409,877	\$ 9,568,674	\$ -	\$ 18,584,969
Grants and contracts	4,449,148	2,993,057	4,861,647	-	12,303,852
Payments to suppliers	(8,118,393)	(3,909,171)	(8,684,901)	(225,856)	(20,938,321)
Payments for utilities	(1,069,111)	(773,449)	(2,035,923)	-	(3,878,483)
Payments to employees	(18,211,314)	(10,134,445)	(24,734,459)	(1,030,879)	(54,111,097)
Loans issued to students	(283,953)	-	(196,718)	-	(480,671)
Collections of loans to students	170,103	175,781	204,286	-	550,170
Sales and services of auxiliary enterprises	4,601,546	1,573,267	5,933,937	-	12,108,750
Other receipts (payments)	20,528	58,541	(244,379)	(57,862)	(223,172)
Net cash used in operating activities	<u>(13,835,028)</u>	<u>(5,606,542)</u>	<u>(15,327,836)</u>	<u>(1,314,597)</u>	<u>(36,084,003)</u>
Noncapital Financing Activities					
State appropriations	14,914,810	8,521,433	18,508,452	1,263,845	43,208,540
Grants and contracts	-	(10,562)	(44,790)	-	(55,352)
Other receipts (payments)	(89,545)	17,920	-	-	(71,625)
Net cash provided by noncapital financing activities	<u>14,825,265</u>	<u>8,528,791</u>	<u>18,463,662</u>	<u>1,263,845</u>	<u>43,081,563</u>
Capital and Related Financing Activities					
Receipt from State for capital purchases	-	-	-	3,534,360	3,534,360
Proceeds from capital debt	-	(34,841)	-	-	(34,841)
Purchase of capital assets	(4,314,361)	(7,868,657)	(9,052,453)	-	(21,235,471)
Principal Paid on capital debt	(320,000)	(100,000)	(340,000)	(2,980,000)	(3,740,000)
Interest paid on capital debt	(292,751)	(146,907)	(395,578)	(1,271,608)	(2,106,844)
Capital Appropriations	1,293,015	1,797,339	1,088,086	1,613,333	5,791,773
Transfers Out	2,615,252	5,190,355	5,470,283	(13,515,858)	(239,968)
Other	18,815	-	-	12,129	30,944
Capital contributions	-	-	55,061	-	55,061
Net cash provided by capital and related financing activities	<u>(1,000,030)</u>	<u>(1,162,711)</u>	<u>(3,174,601)</u>	<u>(12,607,644)</u>	<u>(17,944,986)</u>
Investing Activities					
Purchase/sale of investments	-	(2,371)	(6,031)	696,410	688,008
Investment Income	350,876	307,165	760,257	990,350	2,408,648
Net cash provided by investing activities	<u>350,876</u>	<u>304,794</u>	<u>754,226</u>	<u>1,686,760</u>	<u>3,096,656</u>
Increase in Cash and Cash Equivalents	<u>341,083</u>	<u>2,064,332</u>	<u>715,451</u>	<u>(10,971,636)</u>	<u>(7,850,770)</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,171,742</u>	<u>4,977,751</u>	<u>14,099,996</u>	<u>25,079,083</u>	<u>50,328,572</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,512,825</u>	<u>\$ 7,042,083</u>	<u>\$ 14,815,447</u>	<u>\$ 14,107,447</u>	<u>\$ 42,477,802</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and cash equivalents	\$ 2,236,612	\$ 4,720,448	\$ 10,201,692	\$ 6,023	\$ 17,164,775
Restricted cash and cash equivalents - current	1,422,196	1,044,803	408,837	14,101,424	16,977,260
Restricted cash and cash equivalents - noncurrent	2,854,017	1,276,832	4,204,918	-	8,335,767
Total cash and cash equivalents	<u>\$ 6,512,825</u>	<u>\$ 7,042,083</u>	<u>\$ 14,815,447</u>	<u>\$ 14,107,447</u>	<u>\$ 42,477,802</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities					
Operating loss	\$(16,249,357)	\$(6,897,668)	\$(17,328,506)	\$(1,261,570)	\$(41,737,101)
Depreciation expense	1,460,315	842,414	1,994,057	576	4,297,362
Changes in operating assets and liabilities					
Receivables, net	2,501	(62,342)	46,316	-	(13,525)
Inventories	9,248	(8,819)	5,123	-	5,552
Accounts payable and accrued liabilities	768,931	383,684	(167,627)	(18,731)	966,257
Accrued compensated absences	79,979	29,651	151,809	(34,872)	226,567
Other assets and liabilities	93,355	106,538	(29,008)	-	170,885
Net Cash Used in Operating Activities	<u>\$(13,835,028)</u>	<u>\$(5,606,542)</u>	<u>\$(15,327,836)</u>	<u>\$(1,314,597)</u>	<u>\$(36,084,003)</u>
Supplemental Cash Flows Information					
Accounts payable incurred for capital asset purchases	\$ 785,830	\$ 69,986	\$ 874,546	\$ -	\$ 1,730,362

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2008 Expenditures
<i>U.S. Department of Education:</i>			
Student Financial Aid:			
Federal Supplemental Educational Opportunity Grant		84.007	\$ 241,919
Federal Family Education Loan		84.032	18,083,031
Federal Work Study Program		84.033	535,664
Federal Perkins Loan Program		84.038	3,199,346
Federal Pell Grant Program		84.063	6,534,186
Federal Direct Student Loans		84.268	4,377,881
Academic Competitiveness Grants		84.375	269,191
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	<u>173,433</u>
Total Student Financial Aid			33,414,651
Trio Student Support Services		84.042	524,218
Student Stride Program		84.042A	326,051
Trio-Upward Bound		84.047	109,754
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	38,026
Bilingual Education Professional Development	UNL	84.195	47,595
Professional Development Program/Indian Educ. DOE/UNL Indgns Rts Cntrct	UNL	84.299B	7,538
Improving Teacher Quality State Grants	CCPE	84.367B	<u>21,959</u>
<i>Total U.S. Department of Education</i>			34,489,792
<i>U.S. Department of Agriculture</i>			
Grants for Agricultural Research	University of Minnesota	10.200	810
<i>U.S. Department of Interior</i>			
State Wildlife Grant	NE Game & Parks	15.634	57,075
Challenge Cost Share		15.642	1,668
U.S. Geological Survey Research & Data Collection		15.808	<u>18,468</u>
<i>Total U.S. Department of Interior</i>			77,211
<i>National Science Foundation:</i>			
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	44,325
<i>U.S. Small Business Administration:</i>			
Small Business Development Center	UNO	59.037	84,879

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

<i>U.S. Office of Environmental Education</i>			
P3 Award: National Student Design Competition for Sustainability		66.516	9,888
Environmental Education Grants		66.951	<u>873</u>
<i>Total U.S. Office of Environmental Education</i>			10,761
 <i>U.S. Department of Health & Human Services</i>			
Center for Disease Control & Prevention Investigations & Technical Assistance	NE Health & Human	93.283	13,023
National Center for Research Resources	UNMC	93.389	<u>123,401</u>
<i>Total U.S. Department of Health & Human Services</i>			136,424
 <i>Corporation For National & Community Service</i>			
Learn & Serve America School & Community			
Based Programs	UNL	94.004	8,454
Learn & Serve America Higher Education	UNL	94.005	<u>22,601</u>
<i>Total Corporation For National & Community Service</i>			31,055
 Total Federal Awards			 <u><u>\$ 34,875,257</u></u>

(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

For the Fiscal Year Ended June 30, 2008

- 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 \$2,945,367, 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, 2008, was \$2,793,257.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2008 Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid:						
Federal Supplemental Educational Opportunity Grant		84.007	\$ 80,482	\$ 100,000	\$ 61,437	\$ 241,919
Federal Family Education Loan		84.032	10,620,293	6,479,588	983,150	18,083,031
Federal Work Study Program		84.033	120,454	113,616	301,594	535,664
Federal Perkins Loan Program		84.038	1,688,955	2,982	1,507,409	3,199,346
Federal Pell Grant Program		84.063	2,891,535	1,518,469	2,124,182	6,534,186
Federal Direct Student Loans		84.268	-	-	4,377,881	4,377,881
Academic Competitiveness Grants		84.375	156,324	48,307	64,560	269,191
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	48,787	12,000	112,646	173,433
Total Student Financial Aid			15,606,830	8,274,962	9,532,859	33,414,651
Trio Student Support Services		84.042	-	297,666	226,552	524,218
Student Stride Program		84.042A	326,051	-	-	326,051
Trio-Upward Bound		84.047	-	-	109,754	109,754
Leveraging Educational Assistance Partnership Nebraska State Grant (NSG)	CCPE	84.069	18,512	7,812	11,702	38,026
Bilingual Education Professional Development	UNL	84.195	47,595	-	-	47,595
Professional Development Program/Indian Educ. DOE/UNL Indgns Rts Cntrct	UNL	84.299B	7,538	-	-	7,538
Improving Teacher Quality State Grants	CCPE	84.367B	21,959	-	-	21,959
<i>Total U.S. Department of Education</i>			16,028,485	8,580,440	9,880,867	34,489,792
<i>U.S. Department of Agriculture</i>						
Grants for Agricultural Research	University of Minnesota	10.200	-	-	810	810

(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, 2008

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2008 Expenditures
<i>U.S. Department of Interior</i>						
State Wildlife Grant	NE Game & Parks	15.634	-	-	57,075	57,075
Challenge Cost Share		15.642	-	-	1,668	1,668
U.S. Geological Survey Research & Data Collection		15.808	-	-	18,468	18,468
<i>Total U.S. Department of Interior</i>			-	-	77,211	77,211
<i>National Science Foundation:</i>						
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	-	44,325	-	44,325
<i>U.S. Small Business Administration:</i>						
Small Business Development Center	UNO	59.037	56,772	-	28,107	84,879
<i>U.S. Office of Environmental Education</i>						
P3 Award: National Student Design Competition for Sustainability		66.516	-	-	9,888	9,888
Environmental Education Grants		66.951	-	-	873	873
<i>Total U.S. Office of Environmental Education</i>			-	-	10,761	10,761
<i>U.S. Department of Health & Human Services</i>						
Center for Disease Control & Prevention						
Investigation & Technical Assistance	NE Health & Human	93.283	-	-	13,023	13,023
National Center for Research Resources	UNMC	93.389	120,400	-	3,001	123,401
<i>Total U.S. Department of Health & Human Services</i>			120,400	-	16,024	136,424
<i>Corporation For National & Community Service</i>						
Learn & Serve America School & Community Based Programs	UNL	94.004	-	-	8,454	8,454
Learn & Serve America Higher Education	UNL	94.005	22,601	-	-	22,601
<i>Total Corporation For National & Community Service</i>			22,601	-	8,454	31,055
Total Federal Awards			\$ 16,228,258	\$ 8,624,765	\$ 10,022,234	\$ 34,875,257

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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

We have audited the accompanying financial statements of the business-type activities and discreetly presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2008, which collectively comprise the Nebraska State College System's basic financial statements and have issued our report thereon dated December 9, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Nebraska State College Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation, as described in our report on the Nebraska State College System's financial statements. The financial statements of the Nebraska State College Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska State College System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nebraska State College System's financial statements that is more than inconsequential will not be prevented or detected by the Nebraska State College System's internal control. We consider the following deficiency described in the Schedule of Findings and Questioned Costs of the report to be a significant deficiency in internal control over financial reporting: Finding Number #08-01 (IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College).

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Nebraska State College System in a separate letter.

The Nebraska State College System's response to the finding identified in our audit is described in the Schedule of Findings and Question Costs of the report. We did not audit the Nebraska State College System's response and, accordingly, we express no opinion on it.

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

Signed Original on File

Lincoln, Nebraska
December 9, 2008

Don Dunlap, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

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

Compliance

We have audited the compliance of the Nebraska State College System (NSCS), a component unit of the State of Nebraska, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely presented component units of the Nebraska State College System. We also did not audit compliance with the above requirements, if applicable, for the Revenue and Refunding Bond Funds and Facilities Corporation. The Nebraska State College System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Nebraska State College System's management. Our responsibility is to express an opinion on the Nebraska State College System'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, 2008.

Internal Control Over Compliance

The management of the Nebraska State College System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contract, and grants applicable to federal programs. In planning and performing our audit, we considered the Nebraska State College System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the NSCS's internal control over compliance.

Compliance with Federal Perkins Loan program requirements governing reporting and program performance (due diligence and loan repayment) are the shared responsibility of the Nebraska State College System 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 were reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Services*. Copies of the service organizations 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 internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding #08-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal

control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

This report is intended solely for the information and use of the Nebraska State College System, the Board of Trustees, others within the Nebraska State College System, and the appropriate 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.

Signed Original on File

Lincoln, Nebraska
December 9, 2008

Don Dunlap, CPA
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, 2008

I. Summary of Auditor's Results:

- a. Type of report issued as it related to the Nebraska State College System's (NSCS) basic financial statements: Unqualified.
- b. A significant deficiency in internal control was disclosed by the audit of the NSCS's financial statements and is included in the Schedule of Findings and Questioned Costs in Part II, as item #08-01; a finding which is not considered a material weakness.
- c. The audit disclosed no instances of noncompliance which were material to the NSCS's basic financial statements.
- d. A significant deficiency in internal control over the major program was disclosed by the audit of the NSCS's federal awards and is included in the Schedule of Findings and Questioned Costs in Part II, as item #08-01; a finding which is not considered a material weakness.
- e. Type of report issued on compliance for major program: Unqualified.
- f. The following are considered major programs:
 - Student Financial Aid Cluster
 - CFDA #84.007 Federal Supplemental Educational Opportunity Grant
 - CFDA #84.032 Federal Family Education Loan
 - 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)
 - CFDA #84.375 Academic Competitiveness Grants
 - CFDA #84.376 National Science and Mathematics Access to Retain Talent (SMART) Grants
- g. The threshold used to distinguish between Type A and Type B programs: \$1,046,258
- h. The NSCS did qualify as a low-risk auditee.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Fiscal Year Ended June 30, 2008

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

Finding #08-01

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

Control Objectives for Information and related Technology 4.1 (COBIT) – control objective PO4.11 (Segregation of Duties) states an organization should “Implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process and make sure that personnel are performing only authorized duties relevant to their respective jobs and positions.” Control Objective PO4.13 (Key IT Personnel) states an organization should define and identify key IT personnel and minimize reliance on a single individual performing a critical job function. COBIT also defines segregation/separation of duties as “A basic internal control that prevents or detects errors and irregularities by assigning to separate individuals responsibility for initiating and recording transactions and custody of assets to separate individuals.” Good internal controls include the segregation of IT functions so that no single person is in a position to produce and migrate fraudulent or malicious code into production without detection. A sound compensating control for a lack of segregation of duties surrounding IT processes includes a documented review of audit logs that can identify programming changes, and changes to security settings and user provisioning.

At all three campuses it was noted that at least one developer had full update access to the entire production environment, the change management process lacked adequate segregation of duties, and one individual could make changes and migrate them to production without an independent review being done. Peru and Wayne State Colleges both implemented procedures to review particular data changes made by programmers to compensate for their access to live data. However, these reviews did not include information on security changes made by the developer including adding and removing users, adding and removing access to SIS screens, or changes made to audited events/screens.

Without a review of programming changes, relevant audit log information, and user provisioning changes made by the developer, there is an increased risk developers could make unauthorized, undetected changes.

This issue was also previously reported in the prior five audits.

We recommend the Colleges implement a process to report and review SIS programming and security changes made by developers to the production environment.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Fiscal Year Ended June 30, 2008

III. Findings and Questioned Costs Relating to Federal Awards:

Finding #08-01: IT Segregation of Duties – Peru State College, Wayne State College, and Chadron State College

Program: Various

Federal Grantor Agency: U.S. Department of Education

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

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

The Nebraska State College System (NSCS) has begun implementation processes for both financial management software (financial, human resources, payroll) and a new student information system. Both systems are being implemented in partnership with the University of Nebraska. Database management for the systems will reside at the University, providing additional segregation of duties.

Corrective Action Plan: The colleges continue to review and revise compensating controls. New software system implementations are in process in partnership with the University of Nebraska. The new systems will provide for additional segregation of duties.

Contact: Chadron State: Dale Grant, VP for Administration and Finance (308) 432-6202. Peru State: Linda Jacobsen, VP for Administration and Finance (402) 872-2224. Wayne State: Beth Kroger, VP for Administration and Finance (402) 375-7220.

Anticipated Completion Date: The NSCS anticipates complete implementation of the new software systems by December 31, 2011.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Fiscal Year Ended June 30, 2008

IV. Summary Schedule of Prior Year Audit Findings:

(Continued on Next Page)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding Number	Catalog Number	Grant/Finding	NSCS Response Status of Finding	Auditor Comments/ Current Finding
07-01	84.038	Perkins Loan Grace Period Contacts	<p>Corrective action plan has been implemented.</p> <p><i>Chadron State College (CSC):</i> When borrowers are exited late because of unforeseen circumstances the CSC Perkins Loan office will include the 90 days notice after commencement of their grade period reminding them of their responsibility to comply with loan terms and provide information consisting of the total outstanding loan amount including principal and interest accruing over the remaining life of the loan as well as the date and amount of the next required payment. They will also receive a 150 days notice and a 240 days notice if the situation warrants. The College’s third-party servicer, ACS, sends the 90, 150, and 240 day notices when a borrower has been exited in a timely manner. We can review these notices by accessing the borrower’s information on the ACS website.</p> <p><i>Wayne State College (WSC):</i> WSC contracts with University Accounting Service (UAS) to provide exit information, grace period notices and billing statements to Perkins borrowers. UAS provides 90-150-240 day notices to borrowers going into repayment. WSC has revised its Exit notification letter to include the required information that is included in the 90 day notice from UAS. WSC also checks enrolled borrowers the 15th of each month for students enrolled for less than 12 hours. This would provide information to exit borrowers as needed within a 30 day period. Students that do not withdraw and are determined to not be attending may have their last date of attendance back dated. These students will need one-on-one review to determine the notices that he/she will be provided by WSC. The Exit notification letter is considered a contact notice to the borrower during the grace period. The Perkins accountant will also include notification to the borrower of the necessary information required for grace period notices in correspondence with the borrower during the grace period. Fall enrollment will be verified for all UAS enrolled borrowers in May, June, July, and August. Screen 448-Comments/Holds will be reviewed for all borrowers not enrolled for Fall.</p> <p><i>Peru State College (PSC):</i> No response was submitted or required due to the College no longer participating in the Perkins Loan program.</p>	No current finding
07-02	Various	IT Segregation of Duties	<p>Corrective Action Plan is in progress. The Colleges are implementing two new software systems. For financial, payroll and human resources components, the Colleges are moving to the University of Nebraska’s SAP system. For student information components, the Nebraska State College System made a joint purchase of new software in partnership with the University of Nebraska. In both cases, database management functions will be performed at the University of Nebraska. Once implementations are complete, any issues regarding the College’s IT segregation of duties should be resolved.</p>	Repeated with changes Finding 08-01