

**AUDIT REPORT
OF THE
NEBRASKA STATE COLLEGE SYSTEM
JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA STATE COLLEGE SYSTEM

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STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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

We have audited the accompanying Statement of Net Assets of the Nebraska State College System (NSC), a component unit of the State of Nebraska, as of June 30, 2003, and the related Statements of Revenues, Expenses, and Changes in Net Assets and of Cash Flows for the year then ended. These financial statements are the responsibility of the NSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska State College System as of June 30, 2003, and changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003, on our consideration of the NSC's internal control over financial reporting and our tests of its compliance with certain

provisions of laws, regulations, contracts, and grants. 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 as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 NSC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the combining schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 21, 2003


Assistant Deputy Auditor

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska State College System's (NSC) financial report presents a narrative overview and analysis of the financial activities of the NSC for the fiscal year ended June 30, 2003. This analysis has been prepared by management of the NSC and is intended to be read with the financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the NSC's basic financial statements. The NSC's basic financial statements 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 NSC'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 NSC is improving or deteriorating.

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

Changes in Net Assets

For the fiscal year ended June 30, 2003, net assets of the NSC increased by 9%.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

	2003	2002
Current Assets	\$ 14,804,950	\$ 17,861,703
Noncurrent Assets		
Capital Assets, Net	81,954,149	69,868,258
Other Noncurrent Assets	16,659,737	16,580,319
Total Assets	113,418,836	104,310,280
Current Liabilities	10,386,296	10,625,227
Noncurrent Liabilities	29,240,932	25,917,430
Total Liabilities	39,627,228	36,542,657
Net Assets		
Invested in Capital Assets, Net of Related Debt	51,290,593	40,495,157
Restricted	17,473,756	21,977,827
Unrestricted	5,027,259	5,294,639
Total Net Assets	\$ 73,791,608	\$ 67,767,623
	2003	2002
Operating Revenues		
Tuition and Fees, Net	\$ 11,594,755	\$ 11,703,570
Federal and State Grants and Contracts	7,163,190	6,524,915
Auxiliary Enterprises, Net	8,187,202	8,027,249
Other Operating Revenues	280,675	514,012
Total Operating Revenues	27,225,822	26,769,746
Operating Expenses	66,323,669	66,087,963
Operating Loss	(39,097,847)	(39,318,217)
Nonoperating Revenues (Expenses)		
State Appropriations	36,248,012	35,543,848
Federal and State Grants and Contracts	2,555,246	2,173,515
Private Grants and Contracts	984,632	1,082,778
Investment Income	1,154,782	1,007,811
Other Nonoperating Expenses	(1,507,154)	(889,800)
Total Nonoperating Revenues	39,435,518	38,918,152

NEBRASKA STATE COLLEGE SYSTEM

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

	<u>2003</u>	<u>2002</u>
Gain (Loss) before Other Revenues and Transfers	337,671	(400,065)
Capital Federal Grants and Contracts	-	797,423
Capital State Grants and Contracts	118,782	216,003
Capital Appropriations and Grants	3,763,694	2,444,231
Capital Contributions	912,082	688,829
Capital Facilities Fee	891,756	971,458
Transfers	<u>-</u>	<u>6,472</u>
Increase in Net Assets	6,023,985	4,724,351
Net Assets, Beginning of Year	<u>67,767,623</u>	<u>63,043,272</u>
Net Assets, End of Year	<u><u>\$ 73,791,608</u></u>	<u><u>\$ 67,767,623</u></u>

The fiscal year ended June 30, 2003 is the first year that the NSC has reported as a single entity. The NSC includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), and the NSC System Office in Lincoln, each of which has previously been audited individually. The designation as a single entity reflects the general governing authority of the Board of Trustees, including the authority to distribute the State appropriation among the colleges and the System Office.

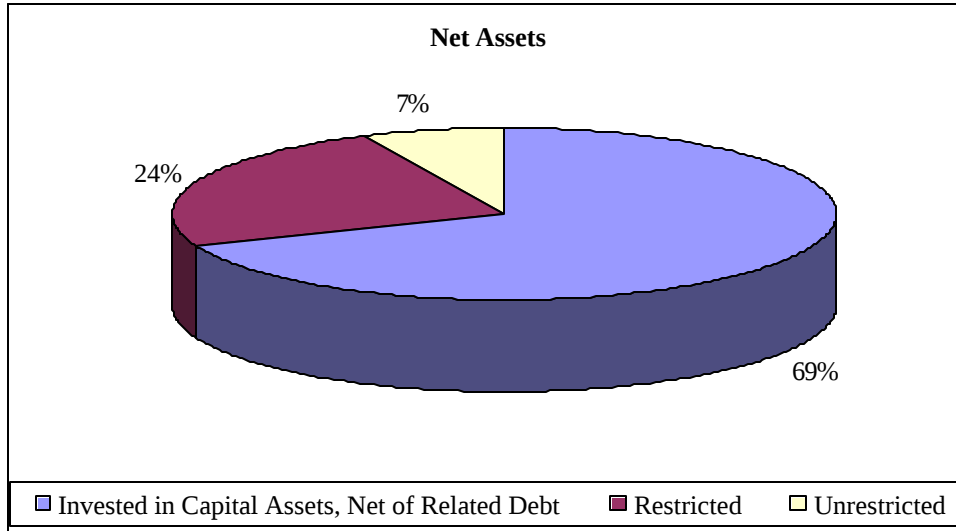
The audit for the fiscal year ended June 30, 2003, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation, statutorily created to allow the NSC to finance building projects of the Board of Trustees of the Nebraska State Colleges on any of its campuses through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees also serve as the officers of the Facilities Corporation. Bonds issued by the Facilities Corporation in recent years include those authorized under LB 1100, passed in 1998, and LB 1, passed during the first special session of the 97th Legislature in 2001. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the System Office while the assets acquired as the result of renovations and new construction appear as assets at the individual colleges.

NEBRASKA STATE COLLEGE SYSTEM

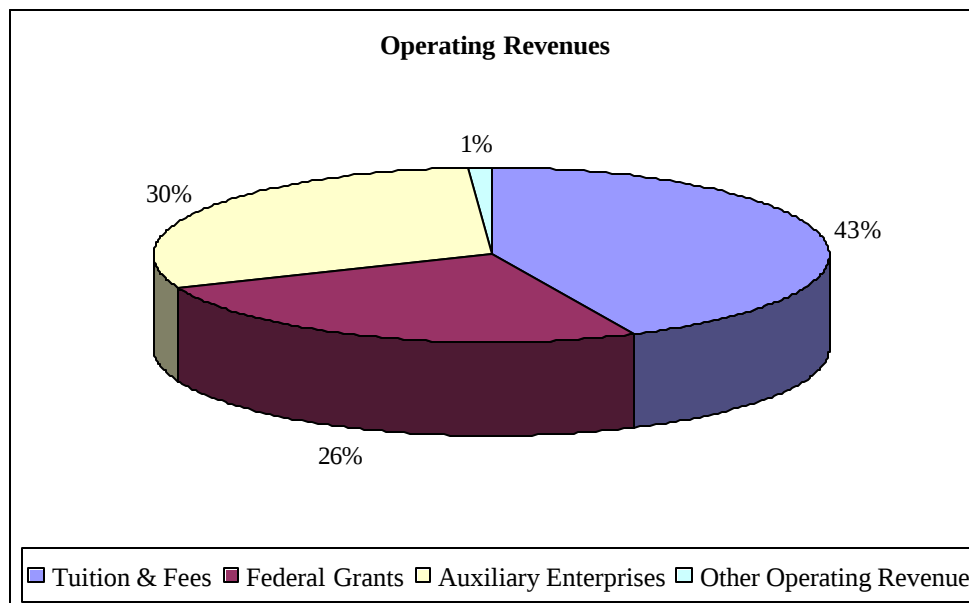
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

At June 30, 2003, the NSC had net assets of \$73.8 million. These were comprised of Unrestricted - \$5 million; Restricted - \$17.5 million, and Invested in Capital Assets, Net of Related Debt - \$51.3 million.



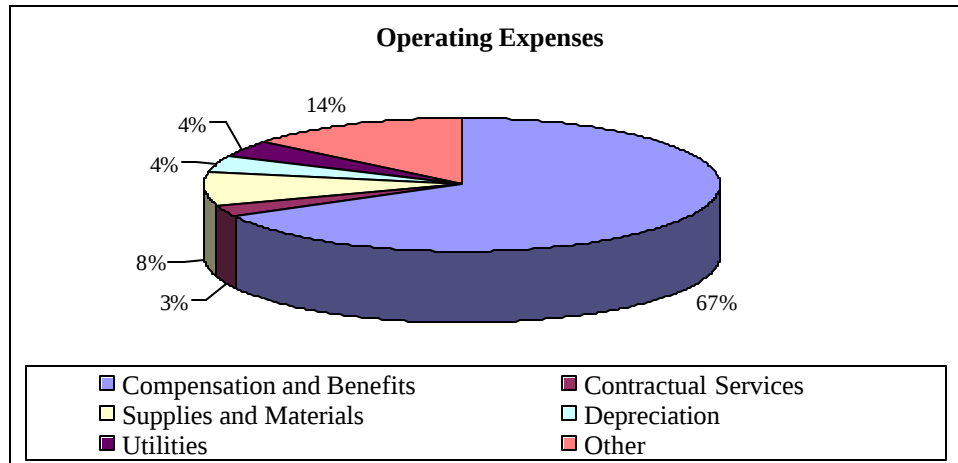
The operating revenues were \$27.2 million, which includes \$11.6 million in tuition and fees, federal grants and contracts of \$7.2 million, auxiliary enterprises of \$8.2 million, and other operating revenues of \$.3 million.



NEBRASKA STATE COLLEGE SYSTEM

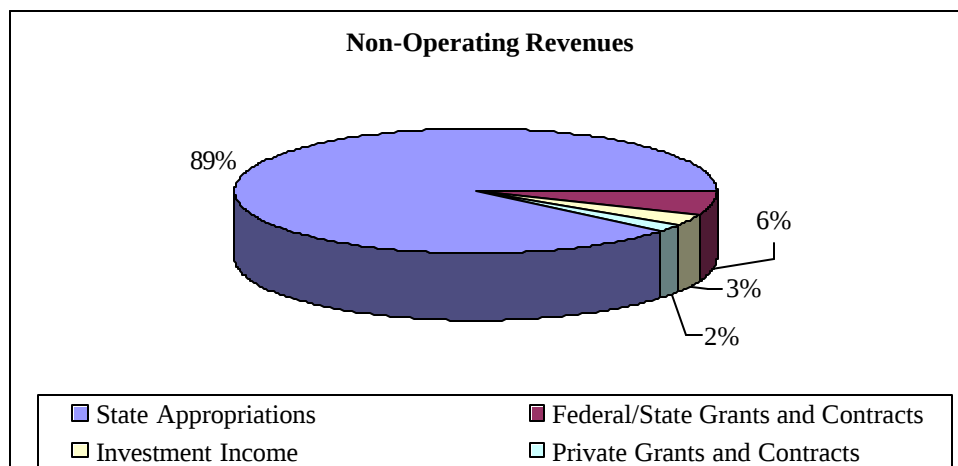
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Operating expenses amounted to \$66.3 million. Compensation and benefits accounted for \$44 million, or 67% of the total; contractual services were \$2 million; supplies and materials, \$5.2 million; scholarships and fellowships, \$1.1 million; depreciation, \$2.9 million; utilities, \$2.8 million; repairs and maintenance, \$.9 million; communications, \$1 million; food service, \$2.5 million; and other, \$3.9 million.



The current year operating loss amounted to \$39.1 million.

Non-operating revenues, which are predominantly State appropriations, added \$39.4 million.



When combined with Federal and State grants and contracts, capital appropriations, capital contributions, and capital facility fees, the result was a \$6 million or 9% increase in net assets over 2001-2002.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The most significant changes from the fiscal year ended June 30, 2002 to the fiscal year ended June 30, 2003, include increases in capital assets, net of depreciation and decreases in accounts payable. The increases relate to continuing construction and renovation projects at the Colleges. The decreases are attributable to the concern surrounding budget cuts and a change in spending habits from the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2003, the NSC had recorded \$130.4 million in gross capital assets and \$48.4 million in accumulated depreciation that resulted in \$82 million in net capital assets. During the fiscal year ended June 30, 2003, the NSC added \$3 million in buildings and improvements, \$.3 million in infrastructure improvements, \$.4 million in furniture and equipment, \$.5 million in library materials and art, and another \$13.9 million in construction in progress. New depreciation of \$2.9 million, disposals, and transfers left an ending balance of net capital assets of \$82 million.

At the end of the fiscal year, the NSC had \$30.9 million of outstanding long-term debt. In August of 2002, the NSC refinanced all of the existing outstanding revenue bond debt at the three colleges under a single Master Resolution. The issue, which totaled \$14.3 million, also provided long-term financing for the 1999 Centennial Complex dormitory renovation at PSC financed initially with bond anticipation notes (BANs). Likewise, it secured funding to renovate Morgan Hall at PSC and Neihardt Hall at WSC and make various fire and life safety improvements at several other WSC residence halls. The Master Resolution gives added strength to the colleges in the marketplace, as the combined surplus funds for all three colleges back the bond obligations. Interest rates were secured through the new issue that provide savings on the refinanced portion of the debt and reasonable rates on the new money.

Since the close of the fiscal year ended June 30, 2003, the NSC has issued additional new debt of \$6.9 million to renovate the Edna Work Dormitory at CSC and accomplish additional deferred maintenance and life safety improvements at WSC dorms. Revenue bond programs at the colleges maintained debt service ratios ranging from 143% to 163% for the fiscal year ended June 30, 2003.

Capital improvements to NSC facilities have been ongoing throughout the year, funded by State appropriations, bonding, student fees, private funds, Federal and State grants, and revenue bond funds. At CSC, the Mari Sandoz High Plains Heritage Center was dedicated in September, involving a major renovation of the old Carnegie Library and an atrium addition; and a total upgrade of the heating, ventilating, and air-conditioning (HVAC) system at CSC's main classroom building is underway. A biomass project that will allow the use of CSC's wood-fired boiler to provide centralized cooling is in progress. Various dormitory improvements have been made, and a new \$1.2 million maintenance facility has been completed.

NEBRASKA STATE COLLEGE SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

At PSC, the library has been relocated into the totally renovated old gymnasium building. An enclosed walkway connects the new library and the old library, and the old library is being renovated to be the new Academic Resource Center. The first phase of the renovation to the historic women's dormitory, Eliza Morgan Hall, is complete. Major improvements have been accomplished at T. J. Majors Hall, the campus's main classroom facility. A new water filtration system has been completed and new boilers are being installed in the renovated campus services building.

At WSC, the Ramsey Theater renovation and addition was completed during the year with the help of a sizeable grant from the Lied Foundation. Major upgrades to the track and stadium were in progress over the fiscal year ended June 30, 2003 and are now completed. A privately owned energy plant on campus has been purchased and totally renovated, with new boilers and chillers; and the underground piping has been extended to provide additional capacity and redundancy to improve the system. The Rice Auditorium HVAC system has been completely renovated with air-conditioning added to the facility. Neihardt Hall has been totally renovated, and fire and life safety improvements and roofing repairs have been accomplished at several other dormitories. A new outdoor plaza has been added between the high-rise dormitory and the student center.

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 NSC, along with other educational entities and State agencies, has been impacted by the economic downturn affecting the nation. Appropriations were reduced through two regular sessions and two special sessions of the Legislature. For the year ended June 30, 2003, the NSC appropriation allowed for only a 2% increase, and for the fiscal year ending June 30, 2004, the appropriation is lower than the prior year by 5.1%. Operating and staffing reductions were necessary to cover rising costs. Tuition rates were increased 9.3% for the 2002-2003 academic year and have been increased another 14.1% for the 2003-2004 year. Nonetheless, the tuition level for the NSC continues to be competitive in the area, being lower than both the University of Nebraska at Kearney and at Lincoln. The rates are about on par with peer institutions around the country. Like the rest of the country, the economy in Nebraska is beginning to turn around.

The Nebraska State Colleges are located in areas of the State where they provide stability and economic support for rural constituencies within the State. A recent legislative study resolution recommended a continuation of the current governance and organizational structure within the higher education community in Nebraska. The report endorsed the importance of the NSC and its open enrollment mission, urging ongoing cooperation with the community colleges to provide continuing educational opportunities for students from smaller towns and rural areas as well as area cities. The indications are that the NSC can expect stable appropriation support into the future.

NEBRASKA STATE COLLEGE SYSTEM
STATEMENT OF NET ASSETS
June 30, 2003

Assets

Current Assets

Cash and Cash Equivalents	\$ 10,640,736
Restricted Cash and Cash Equivalents	1,462,594
Accounts Receivable, Net	426,887
State Grants and Appropriations Receivable	1,349,478
Other Receivables	195,032
Inventories	104,435
Loans to Students, Net	508,200
Prepaid Expenses	117,588
Total Current Assets	<u>14,804,950</u>

Noncurrent Assets

Restricted Cash and Cash Equivalents	10,980,858
Restricted Investments Held by Trustee	3,077,410
Other Receivables	1,680
Loans to Students, Net	2,222,162
Capital Assets, Net	81,954,149
Deferred Bond Issue Costs	377,627
Total Noncurrent Assets	<u>98,613,886</u>
Total Assets	<u>113,418,836</u>

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	5,623,565
Accrued Compensated Absences	1,263,249
Capital Lease Obligations	2,752
Deferred Revenue	291,121
Interest Payable	290,105
Long-Term Debt	2,500,000
Deposits Held in Custody for Others	354,118
Unamortized Bond Premium	38,585
Other Liabilities	22,801
Total Current Liabilities	<u>10,386,296</u>

Noncurrent Liabilities

Accrued Compensated Absences	500,292
Long-Term Debt	28,415,000
Capital Lease Obligations	2,520
Unamortized Bond Premium	154,338
Other Liabilities	168,782
Total Noncurrent Liabilities	<u>29,240,932</u>
Total Liabilities	<u>39,627,228</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	51,290,593
Restricted for:	
Expendable	
Loans	3,160,890
Debt Service	13,512,037
Other Restricted	800,829
Unrestricted	5,027,259
Total Net Assets	<u>\$ 73,791,608</u>

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

NEBRASKA STATE COLLEGE SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Fiscal Year Ended June 30, 2003

Operating Revenues	
Tuition and Fees, Net	\$ 11,594,755
Federal Grants and Contracts	6,542,882
State Grants and Contracts	620,308
Auxiliary Enterprises, Net	8,187,202
Other Operating Revenues	<u>280,675</u>
Total Operating Revenues	<u>27,225,822</u>
Operating Expenses	
Compensation and Benefits	44,061,190
Contractual Services	1,956,731
Supplies and Materials	5,198,632
Scholarships and Fellowships	1,132,692
Depreciation	2,893,910
Utilities	2,825,463
Repairs and Maintenance	891,257
Communications	1,013,222
Food Service	2,455,000
Other Operating Expenses	<u>3,895,572</u>
Total Operating Expenses	<u>66,323,669</u>
Operating Loss	<u>(39,097,847)</u>
Nonoperating Revenues (Expenses)	
State Appropriations	36,248,012
Federal Grants and Contracts	2,096,418
State Grants and Contracts	458,828
Private Grants and Contracts	984,632
Investment Income	1,154,782
Interest on Capital Asset-Related Debt	(1,265,394)
Other Nonoperating (Expenses)	<u>(241,760)</u>
Total Nonoperating Revenues	<u>39,435,518</u>
Gain Before Other Revenues	337,671
Capital State Grants and Contracts	118,782
Capital Facilities Fee	891,756
Capital Contributions	912,082
Capital Appropriations and Grants	<u>3,763,694</u>
Increase in Net Assets	6,023,985
Net Assets, Beginning of Year, as Restated	<u>67,767,623</u>
Net Assets, End of Year	<u><u>\$ 73,791,608</u></u>

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

NEBRASKA STATE COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2003

Cash Flows From Operating Activities	
Tuition and Fees	\$ 11,583,261
Grants and Contracts	7,169,757
Payments to Suppliers	(14,757,024)
Payments for Utilities	(2,825,463)
Payments to Employees	(43,738,467)
Loans Issued to Students	(800,126)
Collections of Loans to Students	583,898
Sales and Services of Auxiliary Enterprises	8,222,456
Other Payments	(1,052,287)
Net Cash (Used) by Operating Activities	<u>(35,613,995)</u>
Cash Flows From Noncapital Financing Activities	
State Appropriations	36,429,063
Grants and Contracts	3,666,965
Contributions	52,035
Net Cash Provided by Noncapital Financing Activities	<u>40,148,063</u>
Cash Flows From Capital and Related Financing Activities	
Receipt from State for Capital Purchases	3,156,679
Purchase of Capital Assets	(15,333,731)
Proceeds from Issuance of Capital Debt	14,315,000
Principal Paid on Capital Debt	(10,485,000)
Interest Paid on Capital Debt	(1,559,728)
Capital Contributions	912,082
Capital Facilities Fee	891,756
Other Capital and Related Financing Activities	(293,797)
Net Cash (Used) by Capital and Related Financing Activities	<u>(8,396,739)</u>
Cash Flows From Investing Activities	
Proceeds from Sales and Maturities of Investment	1,459,970
Purchase of Investments	(1,965,175)
Investment Income	1,154,782
Net Cash Provided by Investing Activities	<u>649,577</u>
Decrease in Cash and Cash Equivalents	<u>(3,213,094)</u>
Cash and Cash Equivalents, Beginning of Year	<u>26,297,282</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 23,084,188</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	\$ 10,640,736
Restricted Cash and Cash Equivalents - Current	1,462,594
Restricted Cash and Cash Equivalents - Noncurrent	10,980,858
Total Cash and Cash Equivalents	<u><u>\$ 23,084,188</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Loss	\$ (39,097,847)
Depreciation Expense	2,893,910
Changes in Operating Assets and Liabilities	
Receivables, Net	(135,489)
Inventories	(6,011)
Accounts Payable and Accrued Liabilities	209,138
Accrued Compensated Absences	248,155
Other Assets and Liabilities	274,149
Net Cash Used in Operating Activities	<u><u>\$ (35,613,995)</u></u>
Supplemental Cash Flows Information	
Accounts Payable Incurred for Capital Asset Purchases	\$ 1,376,574

The accompanying notes are an integral part of the financial statements

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2003

1. **Summary of Significant Accounting Policies**

Nature of Operations

The Nebraska State College System (NSC) is a governmental institution established under and governed by the laws of the State of Nebraska. The NSC operates under the jurisdiction of the Board of Trustees of the Nebraska State Colleges. The NSC includes Wayne State College (WSC), Chadron State College (CSC), Peru State College (PSC), the System Office, and the Nebraska State College Facilities Corporation (a component unit). The NSC 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 NSC. The major accounting principles and practices followed by the NSC are presented below to assist the reader in evaluating the financial statements and accompanying notes.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB has issued GASB 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 NSC follows the "business-type" activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

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

The NSC 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 NSC has elected not to apply FASB pronouncements issued after the applicable date.

Consolidated Restatement

In prior years the Colleges had separate Generally Accepted Accounting Principles (GAAP) financial statements prepared and the Facilities Corporation had separate cash basis financial statements prepared. The fiscal year ended June 30, 2003, is the first year consolidated

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

system-wide financial statements were prepared. Certain intra-entity transactions between the Facilities Corporation, the NSC Office, and the Colleges require elimination to properly reflect the consolidated net assets of the NSC as of June 30, 2002.

The following restatements were made to the beginning of year net assets to conform to the consolidated fiscal year end June 30, 2003 format:

	WSC	CSC	PSC	NSC Office	Total
Net Assets Previously Stated	\$ 34,672,255	\$ 24,053,162	\$ 14,657,137	\$ (3,114,550)	\$ 70,268,004
Consolidated Adjustment	(1,659,052)	-	(841,329)	-	(2,500,381)
Net Assets, Beginning of Year, as Restated	<u>\$ 33,013,203</u>	<u>\$ 24,053,162</u>	<u>\$ 13,815,808</u>	<u>\$ (3,114,550)</u>	<u>\$ 67,767,623</u>

Reporting Entity

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

As required by GAAP, these financial statements present the NSC and its component unit, the Nebraska State Colleges Facilities Corporation, 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 NSC's reporting entity because of the significance of its operational or financial relationships with the NSC. This component unit is an entity that is legally separate from the NSC, but is so intertwined with the NSC that it is, in substance, the same as the NSC. The Facilities 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 NSC itself.

The NSC is the beneficiary of foundations that are separate legal entities with their own boards of trustees. The foundations have legal title to all of the foundations' assets. The financial activity of the foundations, for which the NSC does not have oversight responsibility, is not included in the NSC's financial statements.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Basis of Accounting and Presentation

The financial statements of the NSC 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 NSC first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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 NSC 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 NSC. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSC and as such are not included in the financial statements for the year ended June 30, 2003.

The NSC considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2003, cash equivalents consisted primarily of money market funds.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments and Investment Income

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.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts was \$286,000 at June 30, 2003.

WSC	\$ 158,000
CSC	65,000
PSC	63,000

Deferred Bond Issue Costs

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, 2003, was \$377,627.

WSC	\$ 158,276
CSC	81,182
PSC	33,309
System Office	104,860

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Loans to Students

The NSC 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 \$404,311 at June 30, 2003.

WSC	\$ 184,311
CSC	120,000
PSC	100,000

Capital Assets

Capital assets are recorded at cost at 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 NSC:

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

Compensated Absences

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

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Deferred Revenue

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

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the NSC, 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 either operating or nonoperating revenues in the NSC's financial statements. To the extent revenues from such programs are used to satisfy tuition and fees and other student charges, the NSC has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended June 30, 2003, were \$6,815,607 and \$2,689,542, respectively.

	Tuition and Fees	Auxiliary Enterprises
WSC	\$ 2,642,079	\$ 1,344,613
CSC	2,783,471	680,726
PSC	1,390,057	664,203

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Income Taxes

As a political subdivision of the State of Nebraska, the NSC is exempt from federal and State income taxes.

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

Deposits

At June 30, 2003, the carrying value of the NSC's deposits was \$575,005 and the bank balance was \$616,997. The bank balance at June 30, 2003, was entirely covered by federal depository insurance and collateral held by the pledging institution's agent in other than the NSC'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.

Cash balances of \$11,532,417 at June 30, 2003, are maintained with the Nebraska 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 NSC'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.

Investments

The NSC 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 NSC's investments are categorized to give an indication of the level of custodial credit risk assumed by the NSC. Category 1 includes investments that are insured or registered or for which the securities are held by the NSC or its agent in the NSC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the NSC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the NSC's name, by the broker/dealer, by the dealer bank or by another bank that is a

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

subsidiary of the same holding company as the dealer bank. The NSC's investments in money market funds and State pooled investments are not classified by custodial risk, as they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
U.S. Treasury Obligations – Category 3	\$ 1,112,234
Federal Home Loan Bank Deposits – Category 3	1,965,175
Governmental Securities Money Market Funds – Uncategorized	9,691,010
Certificates of Deposit – Uncategorized	103,502
State Investment Pool – Uncategorized	1,182,255
	<u>\$ 14,054,176</u>

Summary of Fair Values

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

Fair value	
Deposits	\$ 12,107,422
Investments	14,054,176
Total as of June 30, 2003	<u>\$ 26,161,598</u>

Included in the Statement of	
Net Assets	
Cash and Cash Equivalents	\$ 10,640,736
Restricted Cash and Cash Equivalents	12,443,452
Investments held by Trustee	3,077,410
	<u>\$ 26,161,598</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Capital Assets

Capital assets activity for the year ended June 30, 2003 was:

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 535,263	\$ 21,368	\$ -	\$ -	\$ 556,631
Building and Improvements	84,198,297	3,015,571	(8,769)	-	87,205,099
Infrastructure	10,811,956	292,445	-	-	11,104,401
Furniture, Fixtures, and Equipment	3,014,572	436,986	(244,748)	-	3,206,810
Library Materials	7,506,856	468,081	(24,125)	-	7,950,812
Art	77,442	45,000	-	-	122,442
Construction in Progress	9,472,792	13,856,934	-	(3,114,571)	20,215,155
	115,617,178	18,136,385	(277,642)	(3,114,571)	130,361,350
<u>Accumulated Depreciation</u>					
Buildings and Improvements	33,918,740	1,677,351	(8,769)	-	35,587,322
Infrastructure	3,745,067	337,963	-	-	4,083,030
Furniture, Fixtures, and Equipment	1,876,201	370,641	(203,580)	-	2,043,262
Library Materials	6,208,912	507,955	(23,280)	-	6,693,587
Total Depreciation	45,748,920	2,893,910	(235,629)	-	48,407,201
Net Capital Assets	<u>\$ 69,868,258</u>	<u>\$ 15,242,475</u>	<u>\$ (42,013)</u>	<u>\$ (3,114,571)</u>	<u>\$ 81,954,149</u>
<u>Net Assets by Facility</u>	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>System Office</u>	<u>Balance</u>
Land	\$ 387,580	\$ 49,395	\$ 119,656	\$ -	\$ 556,631
Building and Improvements	21,499,563	19,533,742	10,584,472	-	51,617,777
Infrastructure	3,808,705	1,466,875	1,745,791	-	7,021,371
Furniture, Fixtures, and Equipment	396,324	546,623	217,401	3,200	1,163,548
Library Materials	464,039	626,260	166,926	-	1,257,225
Art	77,442	45,000	-	-	122,442
Construction in Progress	11,525,657	1,206,758	7,482,740	-	20,215,155
	<u>\$ 38,159,310</u>	<u>\$ 23,474,653</u>	<u>\$ 20,316,986</u>	<u>\$ 3,200</u>	<u>\$ 81,954,149</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities

The following is a summary of long-term obligation transactions for the NSC for the year ended June 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bond Anticipation	\$ 1,825,000	\$ -	\$ 1,825,000	\$ -	\$ -
Revenue Bonds	8,025,000	-	8,025,000	-	-
Revenue and Refunding Bonds	-	14,315,000	-	14,315,000	375,000
Facilities Corporation Bonds	<u>17,235,000</u>	<u>-</u>	<u>635,000</u>	<u>16,600,000</u>	<u>2,125,000</u>
 Total Long-Term Debt	 <u>27,085,000</u>	 <u>14,315,000</u>	 <u>10,485,000</u>	 <u>30,915,000</u>	 <u>2,500,000</u>
 Other Noncurrent Liabilities:					
Accrued Compensated Absences	1,512,366	251,175	-	1,763,541	1,263,249
Capital Lease Obligations	15,317	-	10,045	5,272	2,752
Unamortized Bond Premium	231,508	-	38,585	192,923	38,585
Other Liabilities	<u>213,150</u>	<u>-</u>	<u>21,567</u>	<u>191,583</u>	<u>22,801</u>
 Total Other Noncurrent Liabilities	 <u>1,972,341</u>	 <u>251,175</u>	 <u>70,197</u>	 <u>2,153,319</u>	 <u>1,327,387</u>
 Total Noncurrent Liabilities	 <u>\$ 29,057,341</u>	 <u>\$ 14,566,175</u>	 <u>\$ 10,555,197</u>	 <u>\$ 33,068,319</u>	 <u>\$ 3,827,387</u>

Student Fees and Facilities Revenue and Refunding Bonds

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

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

Nebraska State College Facilities Corporation Bonds

In July 1999, the Nebraska State College Facilities Corporation authorized the issuance of \$6,845,000 of Series 1999 Bonds. Proceeds are used by the Nebraska State Colleges for various deferred maintenance, repair, and renovation capital projects on their respective campuses. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations and special student fees. The bonds bear interest payable semiannually, at rates of 4.00% - 5.05% and are due in semiannual installments, which began March 15, 2000. Principal maturities began September 15, 2000, and continue until 2009.

In January 2002, the Nebraska State College Facilities Corporation authorized the issuance of \$11,375,000 of Series 2002 Bonds. Proceeds are used for the Peru State College Library and Academic Resource Center Project and the Wayne State College Energy Plant Project. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations. The bonds bear interest payable semiannually, at rates of 2.0% - 5.0% and are due in semiannual installments, which began September 1, 2002. Principal maturities began March 1, 2003, and continue until 2009.

The debt service requirements as of June 30, 2003 are as follows:

Wayne State College Revenue and Refunding Bond			
Year Ending			
June 30,	Principal	Interest	Total
2004	\$ 135,000	\$ 351,403	\$ 486,403
2005	215,000	348,334	563,334
2006	215,000	343,873	558,873
2007	225,000	338,363	563,363
2008	230,000	331,875	561,875
2009-2013	1,265,000	1,533,213	2,798,213
2014-2018	1,540,000	1,254,458	2,794,458
2019-2023	1,925,000	855,393	2,780,393
Thereafter	2,445,000	317,125	2,762,125
Total	<u>\$ 8,195,000</u>	<u>\$ 5,674,037</u>	<u>\$ 13,869,037</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

Chadron State College Revenue and Refunding Bond

Year Ending			
June 30,	Principal	Interest	Total
2004	\$ 240,000	\$ 69,185	\$ 309,185
2005	295,000	64,536	359,536
2006	305,000	58,300	363,300
2007	305,000	50,675	355,675
2008	320,000	41,758	361,758
2009-2013	1,050,000	61,107	1,111,107
Total	<u>\$ 2,515,000</u>	<u>\$ 345,561</u>	<u>\$ 2,860,561</u>

Peru State College Revenue and Refunding Bond

Year Ending			
June 30,	Principal	Interest	Total
2004	\$ -	\$ 156,623	\$ 156,623
2005	100,000	155,698	255,698
2006	100,000	153,623	253,623
2007	100,000	151,123	251,123
2008	100,000	148,273	248,273
2009-2013	565,000	685,290	1,250,290
2014-2018	680,000	561,651	1,241,651
2019-2023	860,000	384,515	1,244,515
Thereafter	1,100,000	142,500	1,242,500
Total	<u>\$ 3,605,000</u>	<u>\$ 2,539,296</u>	<u>\$ 6,144,296</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

Facilities Corporation Bond (1999 Series)

Year Ending			
June 30,	Principal	Interest	Total
2004	\$ 575,000	\$ 242,326	\$ 817,326
2005	600,000	215,883	815,883
2006	630,000	187,585	817,585
2007	655,000	157,381	812,381
2008	690,000	125,093	815,093
2009-2013	2,160,000	126,900	2,286,900
Total	<u>\$ 5,310,000</u>	<u>\$ 1,055,168</u>	<u>\$ 6,365,168</u>

Facilities Corporation Bond (2002 Series)

Year Ending			
June 30,	Principal	Interest	Total
2004	\$ 1,550,000	\$ 455,153	\$ 2,005,153
2005	1,590,000	417,177	2,007,177
2006	1,650,000	357,553	2,007,553
2007	1,715,000	291,552	2,006,552
2008	1,790,000	218,665	2,008,665
2009-2013	2,995,000	149,750	3,144,750
Total	<u>\$ 11,290,000</u>	<u>\$ 1,889,850</u>	<u>\$ 13,179,850</u>

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Concluded)

Nebraska State College System Bond Summary			
Year Ending			
June 30,	Principal	Interest	Total
2004	\$ 2,500,000	\$ 1,274,690	\$ 3,774,690
2005	2,800,000	1,201,628	4,001,628
2006	2,900,000	1,100,934	4,000,934
2007	3,000,000	989,094	3,989,094
2008	3,130,000	865,664	3,995,664
2009-2013	8,035,000	2,556,260	10,591,260
2014-2018	2,220,000	1,816,109	4,036,109
2019-2023	2,785,000	1,239,908	4,024,908
Thereafter	3,545,000	459,625	4,004,625
Total	<u>\$ 30,915,000</u>	<u>\$ 11,503,912</u>	<u>\$ 42,418,912</u>

The bond resolutions of the Facilities Corporation Bonds and the Refunding 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, 2003, the NSC was in compliance with these requirements.

5. Debt Defeasance

On August 27, 2002, the Board of Trustees of the Nebraska State Colleges issued \$14,315,000 in revenue bonds, \$8,775,000 of which were to refinance outstanding bonds at CSC and WSC and pay off outstanding bond anticipation notes at PSC. The remaining bonds of \$5,540,000 were for new projects at PSC and WSC.

The share of the bond issue for the current refunding of CSC debt was \$2,515,000, at an average interest rate of 3.18%, which was used to refund \$2,800,000 of bonds with an average interest rate of 5.55%. The net proceeds of \$2,458,127 (after payment of \$56,873 of underwriter discounts, bond insurance premiums, and costs of issuance) plus an additional \$632,964 of transfer from the prior issue debt service reserve and debt service funds, were used to repay the debt (debt service to call of \$2,834,573), pay the original issue discount of \$2,382, and establish the new debt service reserve fund of \$251,500. As a result, the 1994 refunding bonds are defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Debt Defeasance (Concluded)**

The Board of Trustees completed the current refunding to reduce its total debt service payments over the next nine years by \$234,216 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$199,093.

The share of the bond issue for paying off outstanding bond anticipation notes and obtaining long-term financing at PSC was \$1,980,000 at an average interest rate of 4.69%, which was used to refund \$1,825,000 in bond anticipation notes at an average interest rate of 4.78%. The net proceeds of \$1,927,761 (after payment of \$52,239 of underwriter discounts, bond insurance premiums, and costs of issuance) plus an additional \$103,438 of transfer from the prior issue debt service reserve and debt service funds) were used to repay the debt (debt service to call of \$1,871,664), pay the original issue discount of \$18,725, and establish the new debt service reserve fund of \$140,947. As a result, the 1999 bond anticipation notes are defeased, and the liability for those bond anticipation notes has been removed from the Statement of Net Assets.

The Board of Trustees completed the refunding of the bond anticipation notes and acquisition of new long term debt as planned to allow financing over a 25-year term for PSC dorm improvements, at a cost of \$1,332,853 and an economic loss (difference between the present values of the old and new debt service payments) of \$41,674.

The share of the bond issue for the current refunding of WSC debt was \$4,280,000, at an average interest rate of 4.69%, which was used to refund \$4,545,000 of bonds with an average interest rate of 5.07%. The net proceeds of \$4,169,119 (after payment of \$110,881 of underwriter discounts, bond insurance premiums, and costs of issuance) plus an additional \$761,119 of transfer from the prior issue debt service reserve and debt service funds, were used to repay the debt (debt service to call of \$4,596,185), pay the original issue discount of \$39,259, and fund the new debt service reserve fund of \$297,393. As a result, the 1997 refunding bonds are defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

The Board of Trustees completed the current refunding to allow WSC to spread its debt, at a cost of \$2,008,720 over the next 25 years with an economic loss (difference between the present values of the old and new debt service payments) of \$104,571.

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. Related Party Transactions

The Wayne State College Foundation, the Chadron State College Foundation, and the Peru State College Foundation are related parties that are not financially interrelated organizations. Each College authorizes the respective Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundations have discretionary control over the amounts and timing of its distributions to the Colleges. The Colleges contract with the Foundations to provide limited services and office space without charge in exchange for the support the Colleges receive. The Colleges received monies from the Foundations for scholarships, capital projects, and general support in the fiscal year ending June 30, 2003 as follows:

College	Foundation	Total
WSC	Wayne State College Foundation	\$ 1,101,081
CSC	Chadron State College Foundation	\$ 974,840
PSC	Peru State College Foundation	\$ 416,509

7. Operating Leases

Noncancellable operating leases for educational service expenses expire in various years through 2011. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the NSC to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future minimum lease payments at PSC as of June 30, 2003, were:

2004	\$ 105,586
2005	61,662
2006	44,102
2007	31,250
2008	31,250
2009-2011	75,521
	<u>\$ 349,371</u>

8. Pension Plan

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

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. **Pension Plan (Concluded)**

their beneficiaries. Benefit provisions are contained in the plan document and may be amended by action of the Board of Trustees. Contribution rates for plan members and the NSC for 2003, expressed as a percentage of covered payroll, was 6% and 7.5%. Contributions actually made for the fiscal year ending June 30, 2003 by plan members and the NSC aggregated were \$1,805,969 and \$2,262,571, 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 NSC also sponsors a supplemental retirement annuity plan. Plan members contributed \$782,745 in 2003. The NSC does not contribute to this supplemental plan.

9. **Risk Management**

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

10. **Commitments and Contingencies**

Construction Contracts

The Board of Trustees has authorized and approved construction commitments of \$4,969,734 as of June 30, 2003. These projects will be funded through State monies, Foundation gifts, and capital improvement fees.

WSC	\$	3,131,566
CSC		423,433
PSC		1,414,735

NEBRASKA STATE COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Commitments and Contingencies (Concluded)

Government Grants

The NSC 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.

11. Subsequent Event

The Nebraska Legislature has authorized the Board of Trustees of the Nebraska State Colleges to issue additional revenue bonds in the fiscal year ending June 30, 2004, for projects at CSC and WSC. The new issues will constitute Supplemental Resolutions IV and V under the Master Resolution of 2002. The amounts authorized include up to \$5.2 million over a 25-year period to renovate Edna Work Hall and Edna Work Wing at CSC and up to \$2 million over a 15-year period for various smaller renovation projects at WSC dormitories. On December 2, 2003, \$6.9 million in revenue bonds were issued.

12. New Financial Reporting Standard

The NSC applies the Governmental Accounting Standards Board (GASB) financial reporting standards in the preparation of its financial statements. The GASB has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. For the NSC, this standard will be effective for the fiscal year ending June 30, 2004.

Each College campus has a foundation. This standard may require the inclusion of the foundations' financial activities and balances into the NSC's financial statements. The NSC Office is in the process of reviewing this standard to determine how it should be applied to its financial statements.

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF NET ASSETS

June 30, 2003

	CSC	PSC	WSC	System Office	TOTAL
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 2,955,196	\$ 1,351,241	\$ 5,118,953	\$ 1,215,346	\$ 10,640,736
Restricted Cash and Cash Equivalents	714,454	230,104	518,036	-	1,462,594
Accounts Receivable, Net	127,359	95,539	203,989	-	426,887
State Grants and Appropriations Receivable	131,628	435,695	610,043	172,112	1,349,478
Other Receivables	190,893	4,139	-	-	195,032
Inventories	36,012	13,671	54,752	-	104,435
Loans to Students, Net	156,077	87,999	264,124	-	508,200
Prepaid Expenses	39,525	21,657	56,186	220	117,588
Total Current Assets	<u>4,351,144</u>	<u>2,240,045</u>	<u>6,826,083</u>	<u>1,387,678</u>	<u>14,804,950</u>
Noncurrent Assets					
Restricted Cash and Cash Equivalents	1,611,073	1,050,203	5,025,054	3,294,528	10,980,858
Restricted Investments Held by Trustee	300,657	-	811,578	1,965,175	3,077,410
Other Receivables	-	1,680	-	-	1,680
Loans to Students, Net	879,156	335,407	1,007,599	-	2,222,162
Capital Assets, Net	23,474,653	20,316,986	38,159,310	3,200	81,954,149
Deferred Bond Issue Costs	81,182	33,309	158,276	104,860	377,627
Total Noncurrent Assets	<u>26,346,721</u>	<u>21,737,585</u>	<u>45,161,817</u>	<u>5,367,763</u>	<u>98,613,886</u>
Total Assets	<u>30,697,865</u>	<u>23,977,630</u>	<u>51,987,900</u>	<u>6,755,441</u>	<u>113,418,836</u>
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,435,558	566,381	3,587,240	34,386	5,623,565
Accrued Compensated Absences	378,536	227,140	594,317	63,256	1,263,249
Capital Lease Obligations	2,752	-	-	-	2,752
Deferred Revenue	98,573	124,467	68,081	-	291,121
Interest Payable	35,553	78,311	176,241	-	290,105
Long-Term Debt	240,000	-	135,000	2,125,000	2,500,000
Deposits Held in Custody for Others	93,926	99,295	160,897	-	354,118
Unamortized Bond Premium	-	-	-	38,585	38,585
Other Liabilities	-	22,801	-	-	22,801
Total Current Liabilities	<u>2,284,898</u>	<u>1,118,395</u>	<u>4,721,776</u>	<u>2,261,227</u>	<u>10,386,296</u>
Noncurrent Liabilities					
Accrued Compensated Absences	129,208	106,891	224,344	39,849	500,292
Long-Term Debt	2,275,000	3,605,000	8,060,000	14,475,000	28,415,000
Capital Lease Obligations	2,520	-	-	-	2,520
Unamortized Bond Premium	-	-	-	154,338	154,338
Other Liabilities	-	168,782	-	-	168,782
Total Noncurrent Liabilities	<u>2,406,728</u>	<u>3,880,673</u>	<u>8,284,344</u>	<u>14,669,187</u>	<u>29,240,932</u>
Total Liabilities	<u>4,691,626</u>	<u>4,999,068</u>	<u>13,006,120</u>	<u>16,930,414</u>	<u>39,627,228</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	20,914,653	16,745,295	30,122,585	(16,491,940)	51,290,593
Restricted for:					
Expendable					
Loans	1,322,926	465,248	1,372,716	-	3,160,890
Debt Service	1,872,085	989,186	4,810,735	5,840,031	13,512,037
Other Restricted	562,013	155,677	83,139	-	800,829
Unrestricted	1,334,562	623,156	2,592,605	476,936	5,027,259
Total Net Assets	<u>\$ 26,006,239</u>	<u>\$ 18,978,562</u>	<u>\$ 38,981,780</u>	<u>\$(10,174,973)</u>	<u>\$ 73,791,608</u>

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Year Ended June 30, 2003

	CSC	PSC	WSC	System Office	Total
Operating Revenues					
Tuition and Fees, Net	\$ 3,546,378	\$ 1,812,780	\$ 6,235,597	\$ -	\$ 11,594,755
Federal Grants and Contracts	2,463,144	1,163,850	2,915,888	-	6,542,882
State Grants and Contracts	140,265	327,220	152,823	-	620,308
Auxiliary Enterprises, Net	3,301,540	985,866	3,899,796	-	8,187,202
Other Operating Revenues	40,312	112,062	125,835	2,466	280,675
Total Operating Revenues	9,491,639	4,401,778	13,329,939	2,466	27,225,822
Operating Expenses					
Compensation and Benefits	15,442,245	7,865,513	20,084,907	668,525	44,061,190
Contractual Services	567,356	540,269	715,542	133,564	1,956,731
Supplies and Materials	2,899,702	545,333	1,742,040	11,557	5,198,632
Scholarships and Fellowships	640,681	85,005	407,006	-	1,132,692
Depreciation	1,146,563	525,213	1,221,630	504	2,893,910
Utilities	906,970	506,571	1,411,922	-	2,825,463
Repairs and Maintenance	206,317	329,441	355,439	60	891,257
Communications	273,643	212,987	507,282	19,310	1,013,222
Food Service	777,540	547,045	1,130,415	-	2,455,000
Other Operating Expenses	736,307	907,192	2,095,378	156,695	3,895,572
Total Operating Expenses	23,597,324	12,064,569	29,671,561	990,215	66,323,669
Operating Loss	(14,105,685)	(7,662,791)	(16,341,622)	(987,749)	(39,097,847)
Nonoperating Revenues (Expenses)					
State Appropriations	12,898,037	7,003,188	15,454,303	892,484	36,248,012
Federal Grants and Contracts	954,282	336,529	805,607	-	2,096,418
State Grants and Contracts	-	156,284	302,544	-	458,828
Private Grants and Contracts	529,792	129,362	325,478	-	984,632
Investment Income	186,585	89,979	329,261	548,957	1,154,782
Interest on Capital Asset-Related Debt	(94,617)	(149,965)	(294,853)	(725,959)	(1,265,394)
Other Nonoperating Revenues (Expenses)	(9,109)	52,035	(211,505)	(73,181)	(241,760)
Total Nonoperating Revenues	14,464,970	7,617,412	16,710,835	642,301	39,435,518
Gain (Loss) Before Other Revenues and Transfers	359,285	(45,379)	369,213	(345,448)	337,671
Capital State Grants and Contracts	118,782	-	-	-	118,782
Capital Facilities Fee	-	-	-	891,756	891,756
Transfers	177,360	4,530,902	3,885,238	(8,593,500)	-
Capital Contributions	302,161	12,676	597,245	-	912,082
Capital Appropriations and Grants	995,489	664,555	1,116,881	986,769	3,763,694
Increase in Net Assets	1,953,077	5,162,754	5,968,577	(7,060,423)	6,023,985
Net Assets, Beginning of Year, as Restated	24,053,162	13,815,808	33,013,203	(3,114,550)	67,767,623
Net Assets, End of Year	\$ 26,006,239	\$ 18,978,562	\$ 38,981,780	\$ (10,174,973)	\$ 73,791,608

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2003

	CSC	PSC	WSC	System Office	Total
Cash Flows From Operating Activities					
Tuition and Fees	\$ 3,438,853	\$ 1,961,569	\$ 6,182,839	\$ -	\$ 11,583,261
Grants and Contracts	2,603,409	1,491,070	3,075,278	-	7,169,757
Payments to Suppliers	(6,439,014)	(2,155,740)	(6,020,547)	(141,723)	(14,757,024)
Payments for Utilities	(906,970)	(506,571)	(1,411,922)	-	(2,825,463)
Payments to Employees	(15,364,260)	(7,791,766)	(19,916,936)	(665,505)	(43,738,467)
Loans Issued to Students	(210,323)	(257,131)	(332,672)	-	(800,126)
Collections of Loans to Students	229,455	74,461	279,982	-	583,898
Sales and Services of Auxiliary Enterprises	3,280,029	1,002,572	3,939,855	-	8,222,456
Other Payments	45,584	(685,887)	(257,755)	(154,229)	(1,052,287)
Net Cash Used by Operating Activities	(13,323,237)	(6,867,423)	(14,461,878)	(961,457)	(35,613,995)
Cash Flows From Noncapital Financing Activities					
State Appropriations	12,881,212	6,605,656	15,722,122	1,220,073	36,429,063
Grants and Contracts	1,499,310	617,710	1,549,945	-	3,666,965
Contributions	-	52,035	-	-	52,035
Net Cash Provided by Noncapital Financing Activities	14,380,522	7,275,401	17,272,067	1,220,073	40,148,063
Cash Flows From Capital and Related Financing Activities					
Receipt from State for Capital Purchases	1,232,103	(176,774)	1,116,881	984,469	3,156,679
Purchase of Capital Assets	(2,066,789)	(5,895,279)	(7,371,663)	-	(15,333,731)
Proceeds from Issuance of Capital Debt	2,515,000	3,605,000	8,195,000	-	14,315,000
Principal Paid on Capital Debt	(3,040,000)	(1,825,000)	(4,985,000)	(635,000)	(10,485,000)
Interest Paid on Capital Debt	(158,157)	(339,476)	(317,104)	(744,991)	(1,559,728)
Capital Contributions	302,161	12,676	597,245	-	912,082
Transfers	177,360	4,530,902	3,885,238	(8,593,500)	-
Capital Facilities Fees	-	-	-	891,756	891,756
Other Capital and Related Financing Activities	(9,111)	-	(211,505)	(73,181)	(293,797)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,047,433)	(87,951)	909,092	(8,170,447)	(8,396,739)
Cash Flows From Investing Activities					
Proceeds from Sales and Maturities of Investments	302,796	251,328	905,846	-	1,459,970
Purchase of Investments	-	-	-	(1,965,175)	(1,965,175)
Investment Income	186,585	89,979	329,261	548,957	1,154,782
Net Cash Provided (Used) by Investing Activities	489,381	341,307	1,235,107	(1,416,218)	649,577
Increase (Decrease) in Cash and Cash Equivalents	499,233	661,334	4,954,388	(9,328,049)	(3,213,094)
Cash and Cash Equivalents, Beginning of Year	4,781,490	1,970,214	5,707,655	13,837,923	26,297,282
Cash and Cash Equivalents, End of Year	\$ 5,280,723	\$ 2,631,548	\$ 10,662,043	\$ 4,509,874	\$ 23,084,188
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and Cash Equivalents	\$ 2,955,196	\$ 1,351,241	\$ 5,118,953	\$ 1,215,346	\$ 10,640,736
Restricted Cash and Cash Equivalents - Current	714,454	230,104	518,036	-	1,462,594
Restricted Cash and Cash Equivalents - Noncurrent	1,611,073	1,050,203	5,025,054	3,294,528	10,980,858
Total Cash and Cash Equivalents	\$ 5,280,723	\$ 2,631,548	\$ 10,662,043	\$ 4,509,874	\$ 23,084,188
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities					
Operating Loss	\$(14,105,685)	\$ (7,662,791)	\$(16,341,622)	\$ (987,749)	\$(39,097,847)
Depreciation Expense	1,146,563	525,213	1,221,630	504	2,893,910
Changes in Operating Assets and Liabilities					
Receivables, Net	(51,515)	(31,216)	(52,758)	-	(135,489)
Inventories	1,490	5,851	(13,352)	-	(6,011)
Accounts Payable and Accrued Liabilities	(473,242)	66,143	590,449	25,788	209,138
Accrued Compensated Absences	102,956	30,889	114,310	-	248,155
Other Assets and Liabilities	56,196	198,488	19,465	-	274,149
Net Cash Used in Operating Activities	\$(13,323,237)	\$ (6,867,423)	\$(14,461,878)	\$ (961,457)	\$(35,613,995)
Supplemental Cash Flows Information					
Accounts Payable Incurred for Capital Asset Purchases	\$ 110,547	\$ 61,068	\$ 1,204,959	\$ -	\$ 1,376,574

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Expenditures
U.S. Department of Education:			
Student Financial Aid:			
Federal Supplemental Educationa			
Opportunity Grant		84.007	\$ 209,647
Federal Family			
Education Loans		84.032	10,065,257
Federal Work-Study Program		84.033	528,574
Federal Perkins Loan Program		84.038	3,672,718
Federal Pell Grant Program		84.063	6,124,363
Federal Direct Student Loans		84.268	3,575,304
<i>Total Student Financial Aid</i>			24,175,863
Higher Education			
Institutional Aid		84.031	6,750
TRIO Student Support Services		84.042	754,368
Fund for the Improvement of			
Postsecondary Education		84.116	350,740
Migrant Education -	NE ESU #13		
State Grant Program	Scottsbluff	84.011	777
Leveraging Educational	NE Dept. of Education		
Assistance Partnership	Coordinating Commission		
	for Postsecondary		
	Education	84.069	41,508
Eisenhower Professional	NE Dept. of Education	84.168	12,935
Development-Federal Activities	Coordinating Commission		
	for Postsecondary		
	Education		
Special Education	NE Dept. of Education	84.173	46,872
Preschool Grants			
Eisenhower Professional	NE Dept. of Education		
Development State Grants	Coordinating Commission		
	for Postsecondary		
	Education	84.281	73,886
Cooperative Education	National Council on		
Exchange Program	Economic Education	84.304	2

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003
(Continued)

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Expenditures
Gaining Early Awareness and Readiness for Undergraduate Programs	Little Priest Tribal College	84.334	9,962
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	94,503
Preparing Tomorrow's Teachers to Use Technology	NE Dept. of Education	84.342	53,044
Improving Teacher Quality State Grants	NE Dept. of Education Coordinating Commission for Postsecondary Education	84.367	6,317
Early Childhood Educator Professional Development	NE Dept. of Education NE ESU #3	84.349	349
<i>Total U.S. Dept. of Education</i>			25,627,876
U.S. Dept. of Agriculture: Higher Education Challenge Grants	University of Nebraska at Lincoln	10.217	8,291
U.S. Dept. of Interior: U.S. Geological Survey Research and Data Acquisition		15.808	36,709
U.S. Dept. of Transportation: Highway Planning and Construction	NE Dept. of Roads	20.205	23,519
National Aeronautics and Space Administration: Aerospace Education Services Program	University of Nebraska at Omaha	43.001	750
National Foundation on Arts & Humanities: Promotion of the Arts/ Challenge America Grants		45.027	849
Institute of Museum and Library Services - National Leadership Grants		45.312	251,763
<i>Total National Foundation on Arts & Humanities</i>			252,612

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003
(Continued)

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	Expenditures
National Science Foundation:			
Geosciences	University of Nebraska at Lincoln	47.050	11,686
Biological Sciences	Academy of Natural Sciences of Philadelphia	47.074	7,223
Education and Human Resources	University of Montana	47.076	1,000
Education and Human Resources	University of Nebraska	47.076	<u>6,948</u>
<i>Total National Science Foundation</i>			26,857
U.S. Small Business Administration:			
Small Business Development Center	University of Nebraska at Omaha	59.037	<u>87,304</u>
U.S. Dept. of Health and Human Services:			
Research Infrastructure	University of Nebraska Medical Center	93.389	<u>189,147</u>
Corporation for National and Community Service:			
Learn and Serve America School and Community Based Programs	University of Nebraska	94.004	8,110
Learn and Serve America Higher Education	University of Nebraska	94.005	<u>327</u>
<i>Total Corporation for National and Community Service</i>			8,437
<i>Total Federal Awards</i>			<u><u>\$ 26,261,502</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

NEBRASKA STATE COLLEGE SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Note 1:

This schedule includes the federal awards activity of the Nebraska State College System (NSC) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (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 NSC 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 NSC.

Note 4: The NSC 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 include the balance of loans from previous years of \$3,107,917, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received.

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	CSC	PSC	WSC	Total
U.S. Department of Education:						
Student Financial Aid:						
Federal Supplemental Educational Opportunity Grant		84.007	\$ 61,235	\$ 57,547	\$ 90,865	\$ 209,647
Federal Family Education Loans		84.032	614,694	2,399,329	7,051,234	10,065,257
Federal Work-Study Program		84.033	291,572	83,348	153,654	528,574
Federal Perkins Loan Program		84.038	1,389,562	514,490	1,768,666	3,672,718
Federal Pell Grant Program		84.063	2,285,354	1,069,007	2,770,002	6,124,363
Federal Direct Student Loans		84.268	3,575,304	-	-	3,575,304
<i>Total Student Financial Aid</i>			8,217,721	4,123,721	11,834,421	24,175,863
Higher Education Institutional Aid		84.031	-	-	6,750	6,750
TRIO Student Support Services		84.042	238,258	264,012	252,098	754,368
Fund for the Improvement of Postsecondary Education		84.116	-	-	350,740	350,740
Migrant Education - State Grant Program	NE ESU #13 Scottsbluff	84.011	-	-	777	777
Leveraging Educational Assistance Partnership	NE Dept. of Education Coordinating Commission for Postsecondary Education	84.069	15,110	7,571	18,827	41,508

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	CSC	PSC	WSC	Total
Eisenhower Professional Development-Federal Activities	NE Dept. of Education Coordinating Commission for Postsecondary Education	84.168	12,935	-	-	12,935
Special Education Preschool Grants	NE Dept. of Education	84.173	46,872	-	-	46,872
Eisenhower Professional Development State Grants	NE Dept. of Education Coordinating Commission for Postsecondary Education	84.281	18,529	-	55,357	73,886
Cooperative Education Exchange Program	National Council on Economic Education	84.304	-	-	2	2
Gaining Early Awareness and Readiness for Undergraduate Programs	Little Priest Tribal College	84.334	-	-	9,962	9,962
Teacher Quality Enhancement Grants	NE Dept. of Education	84.336	21,197	-	73,306	94,503
Preparing Tomorrow's Teachers to Use Technology	NE Dept. of Education	84.342	28,824	12,263	11,957	53,044
Improving Teacher Quality State Grants	NE Dept. of Education Coordinating Commission for Postsecondary Education	84.367	6,317	-	-	6,317

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	CSC	PSC	WSC	Total
Early Childhood Educator Professional Development	NE Dept. of Education NE ESU #3	84.349	349	-	-	349
<i>Total U.S. Dept. of Education</i>			8,606,112	4,407,567	12,614,197	25,627,876
U.S. Dept. of Agriculture: Higher Education Challenge Grants	University of Nebraska at Lincoln	10.217	-	-	8,291	8,291
U.S. Dept. of Interior: U.S. Geological Survey Research and Data Acquisition		15.808	36,709	-	-	36,709
U.S. Dept. of Transportation: Highway Planning and Construction	NE Dept. of Roads	20.205	23,519	-	-	23,519
National Aeronautics and Space Administration: Aerospace Education Services Program	University of Nebraska at Omaha	43.001	750	-	-	750
National Foundation on Arts & Humanities: Promotion of the Arts/ Challenge America Grants		45.027	-	-	849	849
Institute of Museum and Library Services - National Leadership Grants		45.312	251,763	-	-	251,763
<i>Total National Foundation on Arts & Humanities</i>			251,763	-	849	252,612

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	CSC	PSC	WSC	Total
National Science Foundation: Geosciences	University of Nebraska at Lincoln	47.050	11,686	-	-	11,686
Biological Sciences	Academy of Natural Sciences of Philadelphia	47.074	-	-	7,223	7,223
Education and Human Resources	University of Montana	47.076	-	-	1,000	1,000
Education and Human Resources	University of Nebraska	47.076	-	-	6,948	6,948
<i>Total National Science Foundation</i>			11,686	-	15,171	26,857
U.S. Small Business Administration: Small Business Development Center	University of Nebraska at Omaha	59.037	31,050	-	56,254	87,304
U.S. Dept. of Health and Human Services: Research Infrastructure	University of Nebraska Medical Center	93.389	89,430	-	99,717	189,147
Corporation for National and Community Service: Learn and Serve America School and Community Based Programs	University of Nebraska	94.004	-	-	8,110	8,110

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

Federal Agency Cluster/Program	Pass-Through Entity	CFDA Number	CSC	PSC	WSC	Total
Learn and Serve America Higher Education	University of Nebraska	94.005	-	-	327	327
<i>Total Corporation for National and Community Service</i>			-	-	8,437	8,437
<i>Total Federal Awards</i>			<u>\$ 9,051,019</u>	<u>\$ 4,407,567</u>	<u>\$ 12,802,916</u>	<u>\$ 26,261,502</u>

(Concluded)

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

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

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska State College System (NSC) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the NSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the NSC in a separate letter dated November 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the NSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a

certain matter involving the internal control over financial reporting and its operating that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the NSC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as finding #03-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the NSC in a separate letter dated November 21, 2003.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 21, 2003


Assistant Deputy Auditor

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AWARDS PROGRAMS

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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

Compliance

We have audited the compliance of the Nebraska State College System (NSC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The NSC's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the NSC's management. Our responsibility is to express an opinion on the compliance of the Nebraska State College System 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 NSC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the NSC'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, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #03-02.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the NSC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as Finding #03-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Assistant Deputy Auditor

November 21, 2003

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003

I. Summary of Auditor's Results

- a. Type of report issued as it related to the Nebraska State College System's (NSC) basic financial statements: unqualified.
- b. A reportable condition in internal control was disclosed by the audit of the NSC's financial statements and is included in the Schedule of Findings and Questioned Costs in Part II, as item # 03-01, which is not considered a material weakness.
- c. The audit disclosed no instances of noncompliance which were material to the NSC's basic financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit and is included in the Schedule of Findings and Questioned Costs in Part III as item #03-02, which is not considered a material weakness.
- e. Type of report issued on compliance for major program: unqualified.
- f. The audit disclosed an audit finding, which is required to be reported in accordance with section 510(a) of OMB Circular A-133 and is included in the Schedule of Findings and Questioned Costs in Part III.
- g. The following are considered major programs:
 - Student Financial Aid Cluster
 - CFDA # 84.007 Federal Supplemental Educational Opportunity Grant
 - CFDA # 84.032 Federal Family Education Loans
 - CFDA # 84.033 Federal Work-Study Program
 - CFDA # 84.038 Federal Perkins Loan Program
 - CFDA # 84.063 Federal Pell Grant Program
 - CFDA # 84.268 Federal Direct Student Loans
- h. The threshold used to distinguish between Type A and Type B programs: \$787,845.
- i. The NSC did not qualify as a low-risk auditee.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Finding #03-01

Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the Department of Administrative Services (DAS) Accounting Division performed some reconciliation procedures. As of April 28, 2004 the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records. The monthly reconciliations during the audit period and subsequent months indicate fluctuations in the variance amounts. Complete and timely

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be done timely and on a monthly basis to ensure all financial information is correct in NIS.

- b. Two key financial reports to be prepared and presented by the DAS Accounting Division were not completed in a timely manner. The Annual Budgetary Report as of June 30, 2003 was not completed until January 2004. The Comprehensive Annual Financial Report has yet to be completed for the fiscal year ended June 30, 2003. Timely reporting of the State's financial information is key to all users of such information, especially State policy makers, when making informed policy decisions.
- c. As of June 30, 2003 a comprehensive written NIS policy and procedures manual had not been prepared. Subsequent to June 30, 2003, DAS Accounting Division has made some progress in updating the prior Nebraska Accounting System (NAS) and Nebraska Employees Information System (NEIS) policy and procedures manuals to incorporate NIS policies. However, as of the date of this report these policy updates are not complete. With hundreds of users of NIS, it becomes imperative the State has a comprehensive policy and procedure manual to help ensure consistent and accurate accounting of the State's financial transactions.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.
- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

NSC's Response: The NSC does not have decision-making authority regarding NIS; and, as such, the comments above are not within the management oversight of the NSC for response. It is the responsibility of the NSC to assure that documents and transactions have posted correctly and are fairly represented on NSC financial information. We believe this has been done.

III. Findings and Questioned Costs Relating to Federal Awards:

Finding #03-02

Program: Student Financial Aid Cluster

Federal Grantor Agency: U.S. Department of Education

Campus: Wayne State College

Criteria: 34 C.F.R. Section 668.53 requires colleges to "establish and use written policies and procedures for verifying information contained in a student aid application."

Condition: Verification procedures for 2 of 30 students tested at Wayne State College were not appropriately completed on a timely basis. Amounts were awarded to these students in August 2002 and January 2003; the verifications were completed in June 2003 after files were requested and exceptions were noted by the auditor. As a result, an additional \$100 Pell award was owed to one student. One student was awarded \$300 more in Pell grant money than he was eligible to receive. No exceptions were noted in testing at Peru or Chadron State Colleges.

Questioned Costs: None

Context: The verification process was tested on a sample at Wayne State College of 30 out of 1,244 students. The sample had total aid of \$141,033 while the population had total aid of \$2,328,362.

Cause: Unknown

NEBRASKA STATE COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect: The College did not comply with the applicable Code of Federal Regulations.

Recommendation: We recommend Wayne State College implement procedures to ensure the verification process is performed in accordance with federal regulations.

NSC's Response: The Financial Aid office has implemented the new verification process. All Financial Aid employees have been included to make sure that they are knowledgeable on the verification requirements. One staff person will perform verification and a professional staff person will perform a double check before awarding the file. This double check should help assure accuracy and catch any errors before aid is awarded.

Corrections were made within the award year to the students in question. Additional checking of verifications was performed to assure accuracy following the audit finding.

IV. Summary Schedule of Prior Year Audit Findings:

Finding: #02-01

Status: Corrective Action Taken

Finding: #02-02

Status: Corrective Action Not Completed for Fiscal Year 2003; to be Implemented for Fiscal Year 2004.