AUDIT REPORT
OF THE
NEBRASKA EDUCATIONAL
TELECOMMUNICATIONS COMMISSION

JULY 1, 2001 THROUGH JUNE 30, 2002

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

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BACKGROUND

The Nebraska Educational Telecommunication Commission was created in 1963 and was created for the purpose of (1) promoting and establishing noncommercial educational telecommunications facilities within the State, (2) providing noncommercial educational telecommunications programs throughout the State by standard broadcast, by closed-circuit transmission, or by other telecommunications technology distributions systems, and (3) operating statewide educational and public radio and television networks and services.

The Commission is composed of 11 members, as follows: (a) The Commissioner of Education or his or her designee; (b) the President of the University of Nebraska or his or her designee; (c) a representative of the State colleges; (d) a representative of the community colleges; (e) a representative of private educational institutions of the State; and (f) six members of the general public, none of whom shall be associated with any of the institutions listed in subdivisions (a) through (e) and two of whom shall be from each congressional district. No more than four members shall be actively engaged in the teaching profession or administration of an educational institution.

Neb. Rev. Stat. Section 79-1316 R.S.Supp., 2002 lists 18 powers and duties of the Commission.

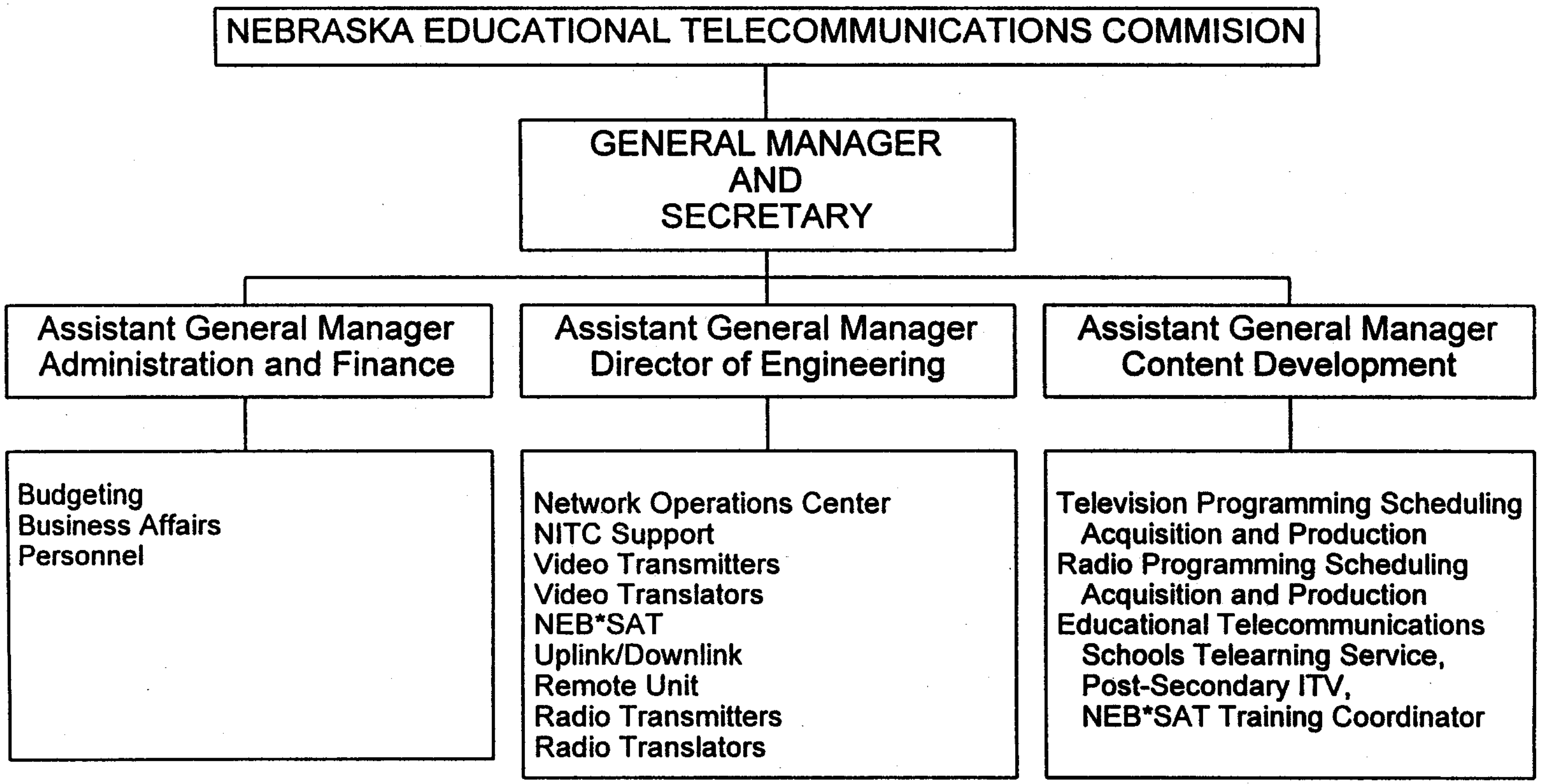
The Commission is operated under an umbrella organization, Nebraska Educational Telecommunications (NET) that includes the University of Nebraska – Lincoln Department of Television. In providing the public television service, the Commission operates an interconnected network of 8 transmitter stations and 16 translators in cooperation with the Board of Regents of the University of Nebraska, which is the licensee of Channel 12, the ninth station in the network. Channel 12 serves as the primary programming station of the network. By written agreement, the Commission reimburses the University for its Channel 12 transmission costs and the University makes Channel 12 programming available at no charge to the Commission for transmission to the other stations in the network.

In 1986 the Legislature added specific responsibility for the development and operation of a Statewide educational and public radio service.

MISSION STATEMENT

Our mission is to educate, challenge, and inspire Nebraska, the Nation, and the World through excellence in non-commercial telecommunications.

ORGANIZATIONAL CHART



SUMMARY OF COMMENTS

During our audit of the Nebraska Educational Telecommunications Commission, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***University Billings:*** The Commission paid the University of Nebraska-Lincoln $1,710,945 under a contract from 1965 that did not indicate a specific dollar amount for services. The Commission paid the University more than budgeted for contractual and production services and did not review actual documentation to support amounts paid to the University for operating expenses.

2. ***Adequate Supporting Documentation:*** The Commission paid $210,872 to the University of Nebraska-Lincoln without adequate documentation to support the payment.

3. ***Internal Control Over Payroll:*** There was no reconciliation to ensure all payroll transactions were authorized. There was no documentation to indicate the Commission approved the January 2002 pay increase to non-contract employees. The Commission did not appropriately forfeit excess leave balances, nor did they maintain documentation for excessive sick leave usage.

4. ***No Written Agreement with Public Radio Nebraska Foundation (PRNF):*** The Commission was reimbursed $379,743 from the PRNF and did not have a written agreement outlining the responsibilities of each entity.

5. ***Expenses Not Charged to the University:*** The Commission purchased seven laptop computers and 100 software licenses, both of which benefited the University of Nebraska-Lincoln as well, and did not maintain documentation to indicate why these expenses were not charged to the University.

6. ***Capital Assets:*** One individual was in a position to be able to both perpetrate and conceal errors and irregularities. There was no physical inventory of capital assets. The Commission did not properly capitalize $226,020 in expenses on the State's accounting system.

7. ***Travel Expense Reimbursements:*** Daily amounts exceeded amounts authorized in the Commission's policies and receipts were not maintained. One document included personal vehicle mileage that was in excess of the most direct route.

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

SUMMARY OF COMMENTS
(Concluded))

Draft copies of this report were furnished to the Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Commission declined to respond.

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

COMMENTS AND RECOMMENDATIONS

1. University Billings

The Commission and the University of Nebraska-Lincoln (University) entered into a contract in October 1965 that required the Commission to pay the University, "the fair and reasonable value of all services rendered by the University to the Commission in connection with the operation of the Commission's network . . ." Good internal control requires contractual agreements be reviewed and modified as appropriate to include specific language related to the types of services to be provided, the specific timeframe of the services to be provided, and a specific amount to be paid for the services provided.

Good internal control also requires actual documentation supporting amounts billed by the University be reviewed by a Commission employee prior to payment to ensure the amounts billed were actual expenses incurred on the Commission's behalf.

The Commission paid $1,710,945 to the University for services related to the 1965 contract. We tested five documents paid to the University and noted the following:

Two of the five documents tested were for contractual and production services provided by the University. The Commission budgeted $643,520 and $421,500, respectively, for contractual and production services to be provided by the University in fiscal year 2002. The Commission actually paid the University $678,699 and $526,583, respectively, for contractual and production services in fiscal year 2002. The risk the Commission will pay more than intended increases without language in the contract for services to include the specific services to be performed, the time period of the services, and a specific dollar amount of the contract.

The Commission also paid $505,663 to the University for operating expenses. Three of the five documents tested were for operating expenses as follows:

- One document was for fuel expense, or steam and chilled water provided by the University for the Terry M. Carpenter building. The total amount paid on the document was $24,875. The Commission did not review the actual documentation to support the expense. The actual invoices were provided from the University, upon request, and the amount of the documentation agreed to the amount paid by the Commission.

- One document was for communications expenses. The total amount paid on the document tested was $11,962. The Commission reviewed a spreadsheet prepared by the University that included the amount billed. However, there was no review of the actual invoice to support the expense or to indicate the specific expenses for which the Commission was paying. The Commission also could not provide the invoice upon request. Therefore, the Commission could not determine whether all charges were from expenses incurred by Commission employees.

COMMENTS AND RECOMMENDATIONS

1. <u>University Billings</u> (Concluded)

- The third document was payment for Commission employees' use of University-owned vehicles. The total amount paid on the document tested was $5,105. The Commission reviewed documentation that included the vehicles for which payment was sought, the beginning and ending mileage of each vehicle for the month, and the total cost per vehicle for the month. However, the Commission did not obtain the vehicle logs to ensure the charges were for trips made by Commission staff.

The risk of loss or misuse of State funds increases significantly without a proper review of actual documentation to support payments made to the University.

> We recommend the Commission review the contract with the University and modify the contract to include the specific services to be provided, the time frame covered by the agreement, and the total amount the contract can not exceed to ensure the Commission does not pay more than intended for services provided by the University. We also recommend the Commission implement procedures to ensure a proper review of actual documentation prior to payments to the University for expenses.

2. <u>Adequate Supporting Documentation</u>

Good internal control requires adequate documentation to support all expenditures. Adequate documentation should include contracts, agreements, or specific legislative appropriations to support payments to other entities.

One of twenty documents tested did not have adequate supporting documentation to support the expense.

The Commission paid $210,872 to the University for the replacement of lost federal funds for the Community Service Grants received from the Corporation for Public Broadcasting. The Commission provided documentation to support the amount appropriated in their budget for fiscal years 1998 through 2000. However, there was not specific language in the appropriations from the Legislature or in the Commission budget request for the replacement of lost federal funds since fiscal year 2000. The Commission also did not have documentation to support the payment between the University and the Commission. There was no agreement between the parties to indicate the amount to be paid by the Commission and how the money was to be used.

There is an increased risk of loss or misuse of State funds without adequate documentation to support amounts paid.

COMMENTS AND RECOMMENDATIONS

2. Adequate Supporting Documentation (Concluded)

> We recommend the Commission implement procedures to ensure adequate documentation supports all amounts paid.

3. Internal Control Over Payroll

Good internal control requires an adequate segregation of duties to ensure no single individual is in a position to be able to both perpetrate and conceal errors or irregularities. Good internal control requires adequate procedures to ensure all policies are properly followed, even in the event of employee turnover. Good internal control also requires documentation to support Commission approval of pay raises for non-contract State employees.

Title 273 Nebraska Administrative Code (NAC) 9-004.02 and the Nebraska Association of Public Employees (NAPE) contract, Article 14.7 both require an employee's accumulated vacation time in excess of thirty five days to be forfeited as of December 31 of each calendar year. Title 273 NAC 9-005.03 requires the sick leave account of each employee to be balanced to a maximum of 1440 hours on December 31 of each year.

Title 273 NAC 9-005.02 and the NAPE contract, Article 14.12 allows the Agency Head to require substantiating evidence if the sick leave absence exceeds three consecutive working days. Title 273 NAC 9-005.02 requires substantiating evidence if a sick leave absence is 10 working days or longer.

We noted the following:

- Five employees were authorized to both prepare and approve payroll transactions. There was no reconciliation to ensure all payroll transactions were authorized. Without adequate procedures to ensure all payroll transactions are authorized, there is an increased risk of loss of State funds.

- There was no documentation to indicate the Commission approved a January 1, 2002 pay increase of 2.5% to non-contract Commission employees. The risk of loss or misuse of State funds also increases without procedures to ensure the approval of pay rate changes are documented.

- The Commission did not appropriately forfeit excessive leave balances until ten months after the calendar year end. Without adequate procedures to ensure leave balances are appropriately written off or approved for carryover, the risk increases that a terminated employee will have the leave balances overpaid.

COMMENTS AND RECOMMENDATIONS

3. Internal Control Over Payroll (Concluded)

- Two of two employees tested with sick leave in excess of ten consecutive days did not have substantiating evidence to support the excessive leave. One employee was under the NAPE contract and used 89 consecutive hours of sick leave. The other employee was a non-contract employee and used 80 consecutive hours of sick leave. Without adequate procedures to ensure policies are appropriately followed, there is an increased risk of abuse of sick leave.

We recommend the following:

- The Commission implement procedures to ensure all payroll transactions are authorized. An employee independent of the approval process should reconcile the payroll information of the employees authorized to approve transactions each pay period.
- The Commission document their approval of decisions regarding pay changes and other significant payroll or other financial matters.
- The Commission implement procedures to ensure vacation and sick balances of employees over the allowable maximum are appropriately written off in a timely manner.
- The Commission implement procedures to ensure substantiating evidence of excessive sick leave is on file, as required.

4. No Written Agreement with Public Radio Nebraska Foundation (PRNF)

Sound business practice requires written agreements to document the responsibilities of each organization along with the funding available to cover the costs.

The Nebraska Educational Telecommunications Commission (Commission) received monies from the Public Radio Nebraska Foundation (PRNF) for reimbursement of expenditures. The Commission was reimbursed $379,743 from PRNF during fiscal year 2002. All temporary and contracted employees providing services to PRNF, as well as actual PRNF employees were paid by the Commission and then reimbursed by PRNF. The Commission was also reimbursed by PRNF for payment of KUCV FM transmission costs. There was no written agreement between the Commission and PRNF documenting

COMMENTS AND RECOMMENDATIONS

4. No Written Agreement with Public Radio Nebraska Foundation (PRNF) (Concluded)

the responsibilities of each organization, the available funding, and the employees to be paid by PRNF. Without a written agreement, there is an increased risk of dispute between the Commission and PRNF in the event of non-payment of these State employees.

> We recommend the Commission obtain a written agreement between the Commission and PRNF documenting the reimbursement process and the responsibilities of each organization.

5. Expenses Not Charged to the University

An amendment to the 1965 contract between the Commission and the University dated November 17, 1969 stated, " . . . office furnishings and equipment shall be maintained and replaced by the party using the same."

Good internal control requires procedures to ensure expenses are paid by the entity that benefits from the expense.

Two of twenty documents tested included payments by the Commission for items used by University employees. The Commission did not bill the University for reimbursement of these expenses.

- The Commission purchased seven laptop computers for the production department. The production department consisted of University employees, but services were provided in this department to the Commission. The total amount of the costs of the computers was $15,323. There was no documentation to support the payment of the entire amount by the Commission.
- The Commission also purchased 100 software licenses. Approximately one-third of the licenses were for State computers, and two-thirds of the licenses were for University computers. The Commission did not request reimbursement from the University for the licenses purchased for the University computers. The total amount of the costs of the licenses was $34,107.

There is an increased risk of loss or misuse of State funds without adequate procedures to ensure amounts paid on behalf of or for the benefit of the University are properly charged to the University.

COMMENTS AND RECOMMENDATIONS

5. Expenses Not Charged to the University (Concluded)

> We recommend the Commission implement procedures to ensure amounts paid on behalf of or for the benefit of the University are appropriately charged to the University. We also recommend the language of the contract be reviewed to determine whether more specific language regarding the allocation of expenses is possible.

6. Capital Assets

Good internal control requires an adequate segregation of duties to ensure no individual is in a position to be able to both perpetrate and conceal errors or irregularities.

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 states all agencies shall annually make or cause to be made an inventory of all State property in their possession, custody, or control as of June 30 of each year. The inventory shall be completed and filed with the DAS Materiel Administrator by August 31 of each year.

Sound accounting practices require procedures to ensure purchases are properly capitalized and coded in the Nebraska Accounting System (NAS).

We noted the following:

- One individual maintained the capital asset records, added items to the capital asset system, deleted items from the capital asset system, and reconciled items added to the supporting documentation. There was not a documented review of the capital asset transactions by another individual.

- A physical inventory count had not been performed by the Commission in several years.

- The Commission incurred and capitalized $226,020 in expenses to improve and update towers for the digital television (DTV) project. However, these expenses were not coded to a capital outlay account code on the Nebraska Accounting System (NAS).

There is an increased risk of loss or misuse of State property without an adequate segregation of duties, and without an annual physical inventory count. Additionally, the capital assets will not be properly recorded if all disbursements that are added to the capital asset system are not coded to a capital outlay account code in NAS.

COMMENTS AND RECOMMENDATIONS

6. Capital Assets (Concluded)

We recommend the following:

- The Commission implement procedures to ensure adequate segregation of duties over capital asset transactions or implement other controls to compensate for the lack of segregation of duties.
- The Commission perform an annual physical inventory each year before filing the inventory list with the DAS Materiel Administrator.
- The Commission establish a written policy related to the capitalization of improvements to capital assets and utilize a capital outlay account code within NAS to properly record improvements to towers.

7. Travel Expense Reimbursements

Good internal control requires procedures to ensure amounts paid to employees as reimbursement of travel expenses are reasonable and in accordance with Commission policy.

The Commission Meal and Mileage Reimbursement Guidelines and policy dated July 1, 2001 requires receipts for each meal on any day that expenses are claimed in excess of the daily guidelines of $30 within Nebraska and $38 outside of Nebraska.

Neb. Rev. Stat. Section 81-1176 R.R.S. 1999 states " . . . only one mileage request shall be allowed for each mile actually and necessarily traveled in each calendar month by the most direct route . . ."

Two of seven employee expense reimbursement requests tested included daily amounts that exceeded the Commission policy and receipts were not provided.

- One employee exceeded the $38 daily limit on each of two days and receipts were not attached to the reimbursement request as required by Commission policy.
- One employee exceeded the $38 daily limit on each of three days and receipts were not attached to the reimbursement request as required by Commission policy.

COMMENTS AND RECOMMENDATIONS

7. Travel Expense Reimbursements (Concluded)

One of seven employee expense reimbursement requests tested included reimbursement for personal vehicle mileage for travel between Alliance and Lincoln. The map miles for the most direct route were calculated at 366 miles. The employee was reimbursed for 442 miles each way. Therefore, the employee was reimbursed a total of 152 miles in excess of the most direct route, which resulted in an overpayment of $55.

The risk of loss or misuse of State funds increases without adequate procedures to ensure amounts paid to employees as reimbursement of travel expenses are reasonable and in accordance with State Statutes and Commission policy.

> We recommend the Commission implement procedures to ensure amounts paid to employees as reimbursement of travel expenses are reasonable and in accordance with State Statute and Commission policy.

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NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities of each major fund, and the aggregate remaining fund information of the Nebraska Educational Telecommunications Commission (Commission), as of and for the year ended June 30, 2002, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements of the Nebraska Educational Telecommunications Commission, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Educational Telecommunications Commission. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Educational Telecommunications Commission, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2003, on our consideration of the Nebraska Educational Telecommunications Commission'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining nonmajor fund financial statements, schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules, Management's Discussion and Analysis, and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Don Dunlap CPA

February 12, 2003 — Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Educational Telecommunications Commission's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Educational Telecommunications Commission for the fiscal year ended June 30, 2002. Please read it in conjunction with the Commission's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Educational Telecommunications Commission's basic financial statements. The Commission's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Commission's overall financial status. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. The Commission's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Commission. Nonfinancial factors also need to be considered to assess the overall health of the Commission. Agency-wide financial statements divide the Commission into three kinds of activities:

Governmental activities – The Commission's basic services are included here. These activities are generally financed through charges for services and Federal grants.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Commission had no business-type activities for fiscal year ended June 30, 2002.

Component units – The Nebraska Educational Telecommunications Commission (NETC) Facilities Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased to and purchased by the Commission. The Governor appoints the members of the Board of Commissioners of the NETC and they, in turn, appoint and elect the five members of the Board of Directors of the NETC Facilities Corporation. Even though it is legally separate, the NETC Facilities Corporation is reported as if it were part of the Commission because it provides services entirely to the Commission.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Commission, reporting the Commission's operations in more detail than the agency-wide statements by providing information about the Commission's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Commission currently has no proprietary funds.

Fiduciary fund statements provide information about financial relationships in which the Commission acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information, which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as combining statements for non-major funds (which are shown in the fund financial statements in a single column), and schedules of Broadcast Hours, Percentage of Households Tuned In, NEB*SAT Network II Hours, and NEB*SAT Network III Hours. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Educational Telecommunications Commission's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE COMMISSION AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Commission (current assets resulting from cash basis transactions) increased 29 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	Governmental Activities		
	2002	2001	% Change
Restricted	$ 32,348,289	$ 24,980,072	29%
Unrestricted	149,961	179,106	-16%
Total Net Assets	$ 32,498,250	$ 25,159,178	29%

The increase in net assets was due to the NETC Facilities Corporation issuance of $9,850,000 in lean rental revenue bonds for the renovation of facilities.

Governmental Activities
Receipts for the Commission's governmental activities decreased 5 percent, while disbursements increased 4 percent.

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities		
	2002	2001	% Change
RECEIPTS:			
Program Receipts:			
Charges for Services	$ 69,829	$ 147,737	-53%
Operating Grants & Contributions	418,195	528,022	-21%
Capital Grants & Contributions	559,106	551,596	1%
General Receipts:			
Appropriations	14,528,756	15,096,598	-4%
Investment Interest	10,115	12,017	-16%
Total Receipts	15,586,001	16,335,970	-5%
DISBURSEMENTS:			
Education	12,239,680	11,430,961	7%
Capital Outlay	4,012,020	4,254,328	-6%
Total Disbursements	16,251,700	15,685,289	4%
Excess (Deficiency) before Other Financing Sources and Uses & Special Items	(665,699)	650,681	-202%
FINANCING ACTIVITY	8,006,859	(1,307,460)	712%
SPECIAL ITEMS: Insurance Proceeds from Satellite	-	1,882,500	-100%
OTHER FINANCING SOURCES & USES	(2,088)	(1,882)	-11%
Increase (Decrease) in Net Assets	7,339,072	1,223,839	500%
Beginning Net Assets July 1	25,159,178	23,935,339	5%
Ending Net Assets June 30	$ 32,498,250	$ 25,159,178	29%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The Commission's financing activities increased significantly due to the issuance of the lease revenue rental bonds as indicated previously.

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

As noted earlier, the Nebraska Educational Telecommunications Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Educational Telecommunications Commission.

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS

June 30, 2002

	GOVERNMENTAL ACTIVITIES **TOTAL (Memorandum Only)**
Assets	
Cash in State Treasury	$ 2,935,384
Cash in Bank (Note 2)	18,787,414
Investments (Note 2)	10,775,389
Deposit with Vendors	63
Total Assets	$ 32,498,250
Net Assets	
Restricted for:	
DTV Projects	$ 988,279
Renovation of Terry M Carpenter Building	1,797,207
Financing Activities	29,562,803
Unrestricted	149,961
Total Net Assets	$ 32,498,250

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

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF ACTIVITIES - CASH BASIS

June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)	FUNCTION Education	FUNCTION Capital Outlay
Disbursements:			
Personal Services	$ 3,698,392	$ 3,698,392	$ -
Operating	10,477,312	7,345,603	3,131,709
Travel	154,885	154,885	-
Capital Asset Purchases	1,447,858	685,347	762,511
Government Aid	473,253	355,453	117,800
Total Disbursements	16,251,700	12,239,680	4,012,020
Program Receipts:			
Charges for Services	69,829	69,829	-
Operating Grants & Contributions	418,195	418,195	-
Capital Grants & Contributions	559,106	-	559,106
Net Program Receipts (Disbursements)	(15,204,570)	(11,751,656)	(3,452,914)
Financing Activity:			
Proceeds from Issuance of Bonds	9,850,000		
Bond Payments	(2,847,900)		
Bond Interest and Miscellaneous Income	1,004,759		
Total Financing Activity	8,006,859		
General Receipts and Other Financing Sources & Uses:			
Appropriations	14,528,756		
Unrestricted Investment Interest	10,115		
Other Financing Sources & Uses	(2,088)		
Total General Receipts, and Other Financing Sources & Uses	14,536,783		
Change in Net Assets	7,339,072		
Net Assets July 1, 2001	25,159,178		
Net Assets June 30, 2002	$ 32,498,250		

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

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

GOVERNMENTAL FUNDS

June 30, 2002

	Major Funds		Other Funds	
	State General Fund 1000	NETC Facilities Corporation		**Total Governmental Funds (Memorandum Only)**
Assets				
Cash in State Treasury	$ -	$ 2,263	$ 2,933,121	$ 2,935,384
Cash in Bank (Note 2)	-	18,787,414	-	18,787,414
Investments (Note 2)	-	10,775,389	-	10,775,389
Deposit with Vendors	63	-	-	63
Total Assets	$ 63	$ 29,565,066	$ 2,933,121	$ 32,498,250
Fund Balances				
Reserved for:				
Postage	$ 63	$ -	$ -	$ 63
Unreserved	-	29,565,066	-	29,565,066
Unreserved, Reported in				
Nonmajor Special Revenue Funds	-	-	2,928,752	2,928,752
Nonmajor Capital Projects Funds	-	-	4,369	4,369
Total Fund Balances	$ 63	$ 29,565,066	$ 2,933,121	$ 32,498,250

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

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

	Major Funds			Other Funds	
	State General Fund 1000	State Building Fund 3300	NETC Facilities Corporation		**Total Governmental Funds (Memorandum Only)**
RECEIPTS:					
Appropriations	$ 8,227,734	$ 6,301,022	$ -	$ -	$ 14,528,756
Federal Grants & Contracts	-	-	-	777,965	777,965
Miscellaneous:					
Investment Interest	-	-	977,475	151,288	1,128,763
Donations & Contributions	-	-	-	58,163	58,163
Other Miscellaneous	2,088	-	27,284	67,741	97,113
TOTAL RECEIPTS	8,229,822	6,301,022	1,004,759	1,055,157	16,590,760
DISBURSEMENTS BY FUNCTION:					
Education	8,227,734	-	3,562,619	449,327	12,239,680
Capital Outlay	-	3,453,122	-	558,898	4,012,020
Debt Service					
Principal	-	-	1,665,000	-	1,665,000
Interest	-	-	1,182,900	-	1,182,900
TOTAL DISBURSEMENTS	8,227,734	3,453,122	6,410,519	1,008,225	19,099,600
Excess (Deficiency) of Receipts Over (Under) Disbursements	2,088	2,847,900	(5,405,760)	46,932	(2,508,840)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	695	-	-	-	695
Deposits to General Fund	(2,783)	-	-	-	(2,783)
Operating Transfers In	-	-	2,847,900	-	2,847,900
Operating Transfers Out	-	(2,847,900)	-	-	(2,847,900)
Proceeds from Issuance of Bonds	-	-	9,850,000	-	9,850,000
TOTAL OTHER FINANCING SOURCES (USES)	(2,088)	(2,847,900)	12,697,900	-	9,847,912
Net Change in Fund Balances	-	-	7,292,140	46,932	7,339,072
FUND BALANCES, JULY 1, 2001	63	-	22,272,926	2,886,189	25,159,178
FUND BALANCES, JUNE 30, 2002	$ 63	$ -	$ 29,565,066	$ 2,933,121	$ 32,498,250

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

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF FIDUCIARY NET ASSETS

ARISING FROM CASH TRANSACTIONS

Fiduciary Funds

June 30, 2002

	Private-Purpose Trust Funds
Assets	
Cash in State Treasury	$ 22,035
	-
Total Assets	22,035
Liabilities	-
Net Assets	
Held in trust for:	
Public Radio Nebraska Foundation	22,035
Total Net Assets	$ 22,035

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

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

	Private-Purpose Trust Funds
ADDITIONS:	
Donations and Contributions	$ 379,742
Investment Interest	501
Total Additions	380,243
DEDUCTIONS:	
Personal Services	301,138
Operating	65,787
Travel	1,191
Capital Asset Purchases	14,186
Total Deductions	382,302
Change in Net Assets Held in Trust	(2,059)
Net Assets July 1, 2001	24,094
Net Assets June 30, 2002	$ 22,035

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Educational Telecommunications Commission are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Educational Telecommunications Commission (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The financial statements include all funds of the Commission. The Commission has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Commission, or the significance of their relationship with the Commission is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Commission (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 Commission 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 Commission.

These financial statements present the Nebraska Educational Telecommunications Commission and its component unit. The Nebraska Educational Telecommunications Commission is part of the primary government for the State of Nebraska's reporting entity. The Nebraska Educational Telecommunications Commission Facilities Corporation is a component unit of the Commission and is included in the Commission's reporting entity because of the significance of their operational or financial relationship with the Commission. Separate audited financial statements of the Facilities Corporation are not available.

Blended Component Unit. The following component unit is an entity that is legally separate from the Commission, but is so intertwined with the Commission that it is, in substance, the same as the Commission. It is reported as part of the Commission and blended into the appropriate funds.

NETC Facilities Corporation. The NETC Facilities Corporation is a nonprofit corporation formed by the Commission in 1999 to acquire property to be leased to and purchased by the Nebraska Educational Telecommunications Commission (NETC). The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Facilities Corporation. Even though it is legally separate, the NETC Facilities Corporation is reported as if it were part of the Commission because it provides services entirely to the Commission.

B. Other Organizations

Other organizations contribute substantially to network programs and services. A description of those organizations follows:

- The University of Nebraska Television Department (KUON-TV) (Department) is operated by the University of Nebraska-Lincoln (the University). For promotional purposes, two Nebraska licensees, the Department and the Commission are collectively referred to as the Nebraska Educational Telecommunications Network (NET). The responsibility of the Department and the Commission are specified in an agreement dated October 15, 1965.

  The Department serves as the primary production arm of NET, while the Commission assumes primary responsibility for transmission. The Department is governed by the Board of Regents of the University of Nebraska.

- The Great Plains National Instructional Television Library (the Library), an operating unit of the Department, which distributes recorded visual instruction throughout the country;

- The Nebraska Department of Education, which has the major responsibility for the elementary and secondary school instructional program services broadcast over the Network;

- The University of Nebraska at Omaha Television Department, which develops public television programs for broadcast over the Omaha station KYNE-TV, and other stations of the Network;

- NETCHE, Inc. is a non-profit multipurpose consortium of Nebraska colleges and universities, which uses television and the Network to supplement postsecondary campus instruction;

- The University of Nebraska-Lincoln Division of Continuing Studies, which employs the Network to bring college credit and noncredit telecourses to adults throughout the State;

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

- The Nebraskans for Public Television, Inc. (NPTV), which is a voluntary citizen support organization for television services. NPTV is a nonprofit organization and provides a means for accepting funding and services that otherwise would not be available to the Network. NPTV serves as fiduciary for Schools Telelearning Services (STS) Initiative funds, of which $41,227 was provided to the Commission in fiscal year 2002;

- The Native American Public Telecommunication consortium (NAPT), which is a nonprofit organization dedicated to the expression of the American heritage;

- The Public Radio Nebraska Foundation, Inc. (PRNF) is a voluntary support organization for public radio services. PRNF is a nonprofit organization and provides a means for accepting funding and services that otherwise would not be available to the Network. During fiscal year 2002, PRNF contributed $380,243 to the Commission, which was accounted for in a trust fund in support of salaries and grant matching requirements;

- The Network is a member of the Public Television Outreach Alliance (PTOA), which was formed in 1986 by five public television licensees. The purpose of the Alliance was to create television programming and coordinate special outreach activities designed to deal with serious social issues. The PTOA is funded through annual grants from the corporation for Public Broadcasting (CPB);

The Terry M. Carpenter Nebraska Educational Telecommunications Center (the Center) in Lincoln also houses, rent-free, NPTV, NAPT, and PRNF. The University provides custodial and basic maintenance of the Center at no cost to the Commission and other organizations housed in the Center.

C. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Commission, and its component unit, and are in the format of government-wide statements as required by Governmental Accounting Standards Commission (GASB) Statement Number 34. These statements include all the financial activities of the Commission, and its component unit, except for fiduciary activities. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Commission reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

1. Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Commission reported the following general receipts: appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Fund Financial Statements. The fund financial statements provide information about the Commission's funds, including its fiduciary funds and blended component unit. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Commission uses only the governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Commission reports the following major governmental funds:

General Fund. This is the Commission's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

State Building Fund. The State Building Fund is used for purchases of land, structural improvements to land, acquisition or construction of buildings, including architectural and engineering costs, replacement of or major repairs to structural improvements to land or buildings, additions to existing structures, and remodeling of buildings. The Legislature appropriates monies to this fund for the Commission to pay the principal and interest on the lease rental revenue bonds ($2,847,900), to pay the satellite transponder lease ($2,845,320), and for other capital project activities.

NETC Facilities Corporation Fund. This fund is comprised of the Nebraska Accounting System (NAS) Fund 6472, which is used by the Commission to record the activity of the Facilities Corporation, and also includes the activity of the NETC Facilities Corporation recorded in the bank. This is the fund used to blend the activity of this component unit.

The Commission reports the following other funds:

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Educational Telecommunications Fund. NAS Fund 2471 is used by the Commission for carrying out the provisions of the Nebraska Educational Telecommunications Act.

NEB*SAT Cash Fund. NAS Fund 2472 currently consists of the remaining balance from tower rental revenue and the satellite transponder revenue. The fund also consists of the remaining balance of the original $1,882,500 insurance proceeds from the failed satellite. The fund was used by the Commission for the Digital Television (DTV) project and renovation of the Terry M. Carpenter Center.

Federal TV Facilities Fund. NAS Fund 4471 accounts for federal grant monies received to upgrade equipment in relation to the digital television project.

Private Purpose Trust Fund. The Commission holds funds for the PRNF in support of salaries and grant matching requirements.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Commission are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Commission. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide and fiduciary fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of

1. Summary of Significant Accounting Policies (Continued)

the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

E. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Commission, except the Federal TV Facilities fund 4471, were designated for investment during fiscal year 2002.

Investments. At June 30, 2002, investments consist of U.S. Treasury notes. The U.S. Treasury notes have original maturities greater than three months and are carried at fair value. The investments are assets of the NETC Facilities Corporation.

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Commission earn sick and annual leave. Temporary and intermittent employees and Commission and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide and fiduciary financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use unrestricted resources first, then restricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Commission is reporting restricted net assets for DTV projects, for the renovation of the Terry M. Carpenter building, and for financing activities related to the NETC Facilities Corporation.

F. Fund Balance Reservations

Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

2. Deposits and Investments

Deposits. For purposes of classifying categories of credit risk, the bank balances of the Commission's deposits at June 30, 2002 are either entirely insured or collateralized with securities.

Investments. The Commission's investments are categorized to give an indication of the level of risk assumed by the Commission at year-end. Category 1 includes investments that are insured or registered, with securities held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Commission's name. At June 30, 2002, all of the investments are Category 1 investments.

A reconciliation of deposits and investments for the Commission to the statement of net assets at June 30, 2002 is as follows:

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Concluded)

Restricted Cash:		
Money market account held by trustee for purchase of DTV equipment and facility renovations	$	18,787,414
Restricted Investments:		
U.S. Treasury notes held by trustee for purchase of DTV equipment and facility renovations		10,775,389
Assets as reflected on statement of net assets arising from cash transactions:		
Cash in bank		18,787,414
Investments		10,775,389

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. Contingencies and Commitments

Risk Management. The Commission is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Commission, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Contingencies and Commitments (Concluded)

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly-acquired properties are covered up to $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000.

E. State agencies have the option to purchase building contents and inland marine coverage.

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

Litigation. The potential amount of liability involved in litigation pending against the Commission, if any, could not be determined at this time. However, it is the Commission's opinion that final settlement of those matters should not have an adverse effect on the Commission's ability to administer current programs. Any judgment against the Commission would have to be processed through the State Claims Commission and be approved by the Legislature.

5. State Employees Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. State Employees Retirement Plan (Plan) (Concluded)

completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Commission matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed $108,290 and the Commission contributed $168,932.

6. Transfers

The Legislature appropriates the funds to pay the principal and interest on the lease rental revenue bonds to the State Building Fund of the Commission (NAS Fund 3300). These funds are transferred to the NETC Facilities Corporation, who then makes the payment on the bonds. Transfers from the State Building Fund to the NETC Facilities Corporation totaled $2,847,900.

7. Financing Activity

The Commission created the NETC Facilities Corporation for the purpose of acquiring property to be leased to and purchased by the Commission. In February 2000, the NETC Facilities Corporation issued $22,515,000 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May 2002, the NETC Facilities Corporation issued $9,850,000 of lease rental revenue bonds to renovate facilities. The NETC Facilities Corporation is not subject to State Constitutional restrictions on the incurrence of debt, which may apply to the Commission itself. The obligations outstanding at June 30, 2002 are collateralized by the revenues of the NETC Facilities Corporation, which consist of rental paid by the Commission.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Financing Activity (Concluded)

The first Bond Issuance was for $22,515,000 including interest costs of $8,247,998. A summary of the future bond payments, including interest is as follows:

Year	Principal	Interest	Total
2003	$ 1,745,000	$ 1,102,980	$ 2,847,980
2004	1,830,000	1,015,730	2,845,730
2005	1,925,000	922,400	2,847,400
2006	2,025,000	822,300	2,847,300
2007	2,145,000	700,800	2,845,800
Thereafter	9,535,000	1,298,700	10,833,700

The second Bond Issuance was for $9,850,000 including interest costs of 1,898,909. A summary of the future bond payments, including interest is as follows:

Year	Principal	Interest	Total
2003	$ -	$ 326,907	$ 326,907
2004	1,335,000	380,863	1,735,863
2005	1,390,000	344,277	1,734,277
2006	1,435,000	301,187	1,736,187
2007	1,495,000	243,787	1,738,787
Thereafter	4,175,000	301,888	4,476,888

8. GASB 34

In June 1999, the Governmental Accounting Standards Commission (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Commission implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Commission’s financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Commission were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Commission.

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

SUPPLEMENTARY INFORMATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
PROGRAM:				
533 - Educational Television	$ 8,386,795	$ 8,066,884	$ 7,689,780	$ 377,104
566 - Public Radio	602,202	582,244	537,954	44,290
TOTAL DISBURSEMENTS	$ 8,988,997	$ 8,649,128	$ 8,227,734	$ 421,394

See Notes to Supplementary Information

NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Commission's legally adopted annual budget amount. The Commission's budgetary comparison schedule includes the general fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Commission and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

All State budgetary disbursements for the general fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2002

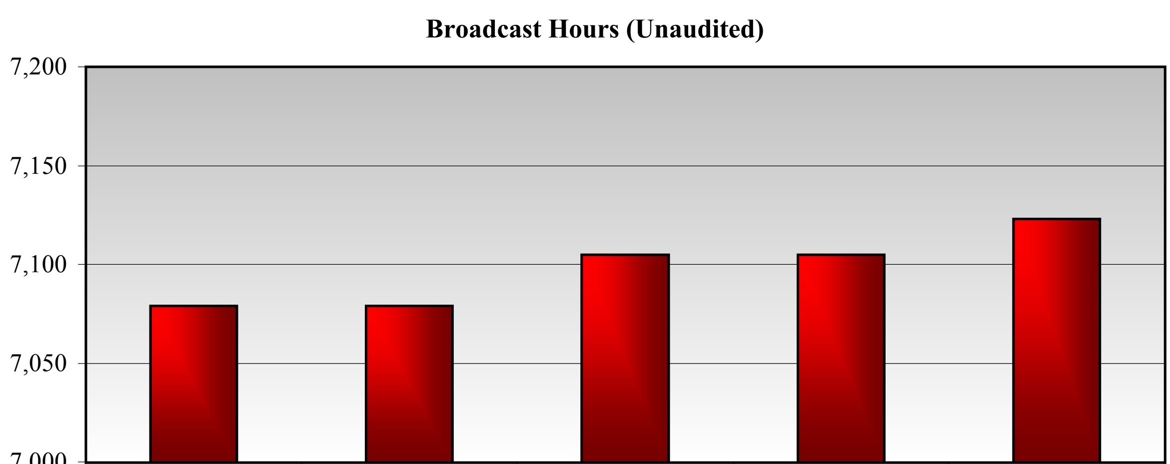
	Special Revenue			Capital Projects	
	Educational Telecommunications Fund 2471	NEB*SAT Cash Fund 2472	Total	Federal TV Facilities Fund 4471	**Total Nonmajor Governmental Funds**
Assets					
Cash in State Treasury	$ 143,266	$ 2,785,486	$ 2,928,752	$ 4,369	$ 2,933,121
Total Assets	$ 143,266	$ 2,785,486	$ 2,928,752	$ 4,369	$ 2,933,121
Fund Balances					
Unreserved, Reported in					
Nonmajor Special Revenue Funds	$ 143,266	$ 2,785,486	$ 2,928,752	$ -	$ 2,928,752
Nonmajor Capital Project Funds	-	-	-	4,369	4,369
Total Fund Balances	$ 143,266	$ 2,785,486	$ 2,928,752	$ 4,369	$ 2,933,121

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds			Capital Projects	
	Educational Telecommuni-cations Fund 2471	NEB*SAT Cash Fund 2472	Total	Federal TV Facilities Fund 4471	**Total Nonmajor Governmental Funds**
RECEIPTS:					
Federal Grants & Contracts	$ 218,859	-	$ 218,859	$ 559,106	$ 777,965
Sales & Charges	-	-	-	-	-
Miscellaneous:					
Investment Interest	10,115	141,173	151,288	-	151,288
Donations & Contributions	58,163	-	58,163	-	58,163
Other Miscellaneous	47,432	20,309	67,741	-	67,741
TOTAL RECEIPTS	334,569	161,482	496,051	559,106	1,055,157
DISBURSEMENTS BY FUNCTION:					
Education	364,034	85,293	449,327	-	449,327
Capital Outlay	-	-	-	558,898	558,898
TOTAL DISBURSEMENTS	364,034	85,293	449,327	558,898	1,008,225
Excess (Deficiency) of Receipts Over (Under) Disbursements	(29,465)	76,189	46,724	208	46,932
Net Change in Fund Balances	(29,465)	76,189	46,724	208	46,932
FUND BALANCES, JULY 1, 2001	172,731	2,709,297	2,882,028	4,161	2,886,189
FUND BALANCES, JUNE 30, 2002	$ 143,266	$ 2,785,486	$ 2,928,752	$ 4,369	$ 2,933,121

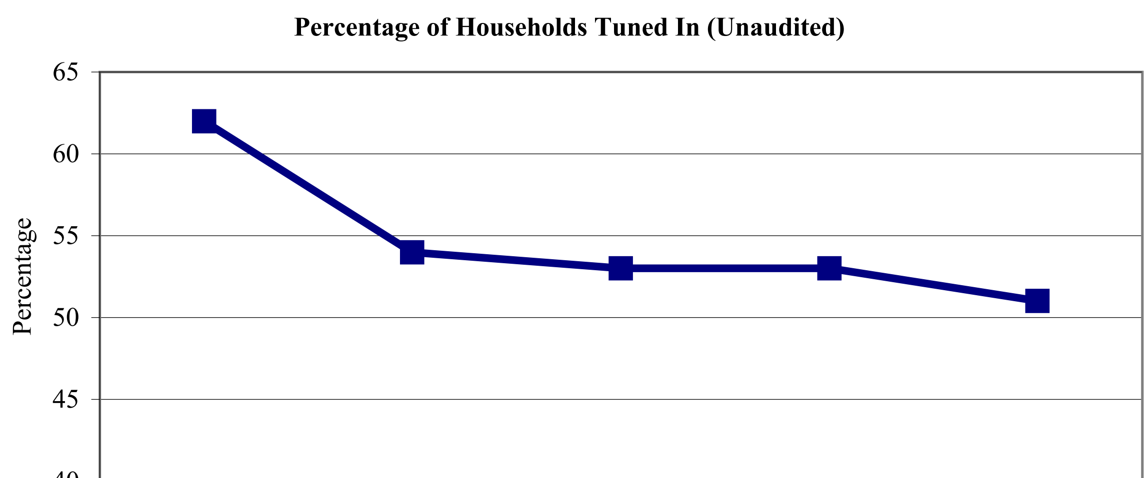
The Commission operates on a 365-day per year broadcast schedule. Programs are acquired through national distribution centers or are locally produced. The Commission staff provides engineering and technical support for the network operations center (NAC), transmitter sites, satellite dish installation, and translators. Production personnel are obtained on a contractual basis from the University of Nebraska Television Department.

Broadcast hours for the past five fiscal years were as follows:



	1998	1999	2000	2001	2002
Hours	7,079	7,079	7,105	7,105	7,123

Percentage of households who watched NET during the week (data provided by Nielsen Media Specialists, Dunedin, FL):



	1998	1999	2000	2001	2002
%	62	54	53	53	51

NEB*SAT is a statewide educational telecommunications service to be used on behalf of education and State Government for the State of Nebraska.

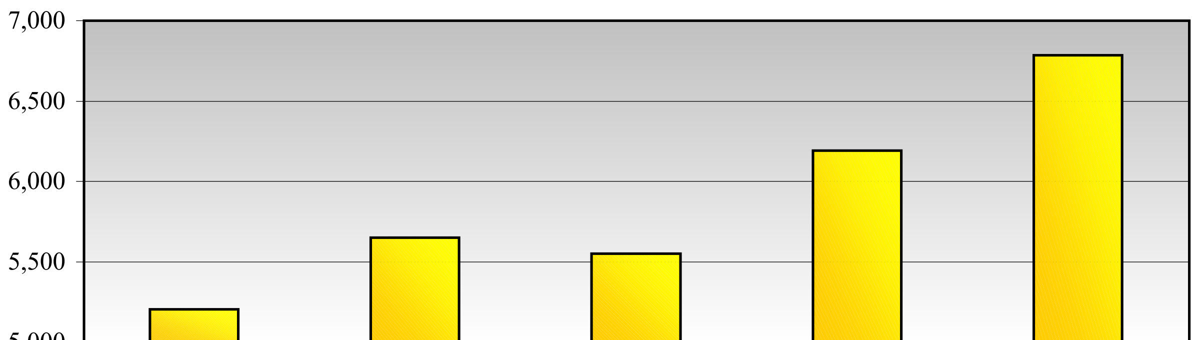
NEB*SAT Network I distributes the Nebraska ETV Network programming and Nebraska Public Radio Network programming from the Nebraska Educational Telecommunications Center in Lincoln to all nine television and nine public radio transmitters located throughout the State, thereby enabling Nebraska viewers and listeners to receive services of the Nebraska Educational Telecommunications systems. In addition Nebraska ETV also provides NETV2 to Cable Television systems throughout the state.

NEB*SAT Network II is a full motion distance education channel that provides a wide range of valuable statewide programming services. It uses digital Multiple Carrier Per Channel (MCPC) format with six separate channels dedicated to distance learning.

NEB*SAT Network III has 30 compressed satellite channels that provide interactive video (two-way) program service. The primary use of this network is the delivery of credit classes between the State's higher education institutions.

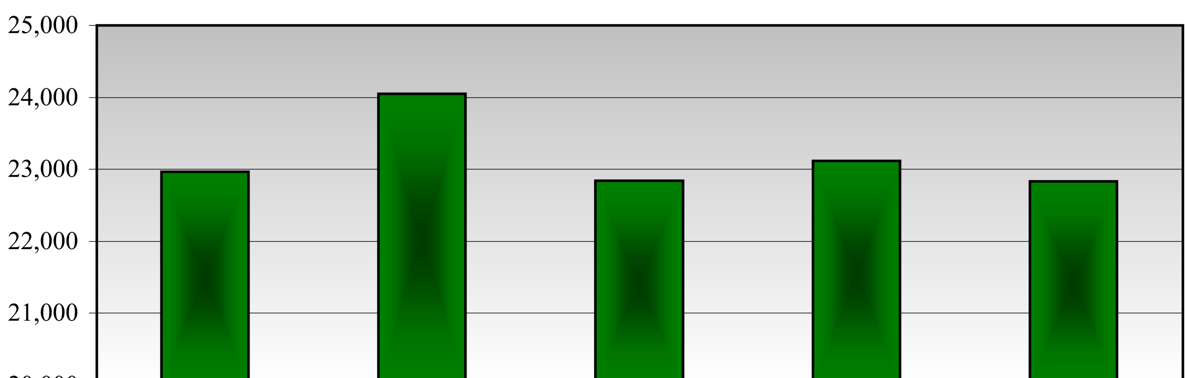
The hours utilized on Network I were noted earlier in the report as the Broadcast hours. Networks II and III Satellite utilization is noted below:

NEB*SAT Network II Hours (Unaudited)



	1998	1999	2000	2001	2002
Hours	5,203	5,650	5,550	6,193	6,786

NEB*SAT Network III Hours (Unaudited)



	1998	1999	2000	2001	2002
Hours	22,966	24,053	22,844	23,120	22,834

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NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Nebraska Educational Telecommunications Commission as of and for the year ended June 30, 2002, and have issued our report thereon dated February 12, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Educational Telecommunications Commission. 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 Nebraska Educational Telecommunications Commission'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*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Educational Telecommunications Commission in the Comments Section of this report as Comment Number 3 (Internal Control Over Payroll), Comment Number 6 (Capital Assets), and Comment Number 7 (Travel Expense Reimbursements).

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Nebraska Educational Telecommunications Commission'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 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 financial reporting that, in our judgment, could adversely affect the Nebraska Educational Telecommunications Commission'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 Comments Section of the report as Comment Number 1 (University Billings).

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 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 Nebraska Educational Telecommunications Commission in the Comments Section of the report as Comment Number 2 (Adequate Supporting Documentation), Comment Number 3 (Internal Control Over Payroll), Comment Number 5 (Expenses Not Charged to the University), Comment Number 6 (Capital Assets), and Comment Number 7 (Travel Expense Reimbursements).

This report is intended solely for the information and use of the Commission, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Don Dunlap CPA

February 12, 2003 Assistant Deputy Auditor