ATTESTATION REPORT
OF THE
NEBRASKA EDUCATIONAL
TELECOMMUNICATIONS COMMISSION

JULY 1, 2004 THROUGH JUNE 30, 2005

Issued on June 6, 2006

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.R.S. 2003 lists 18 powers and duties of the Commission.

The purposes of the Commission are 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.

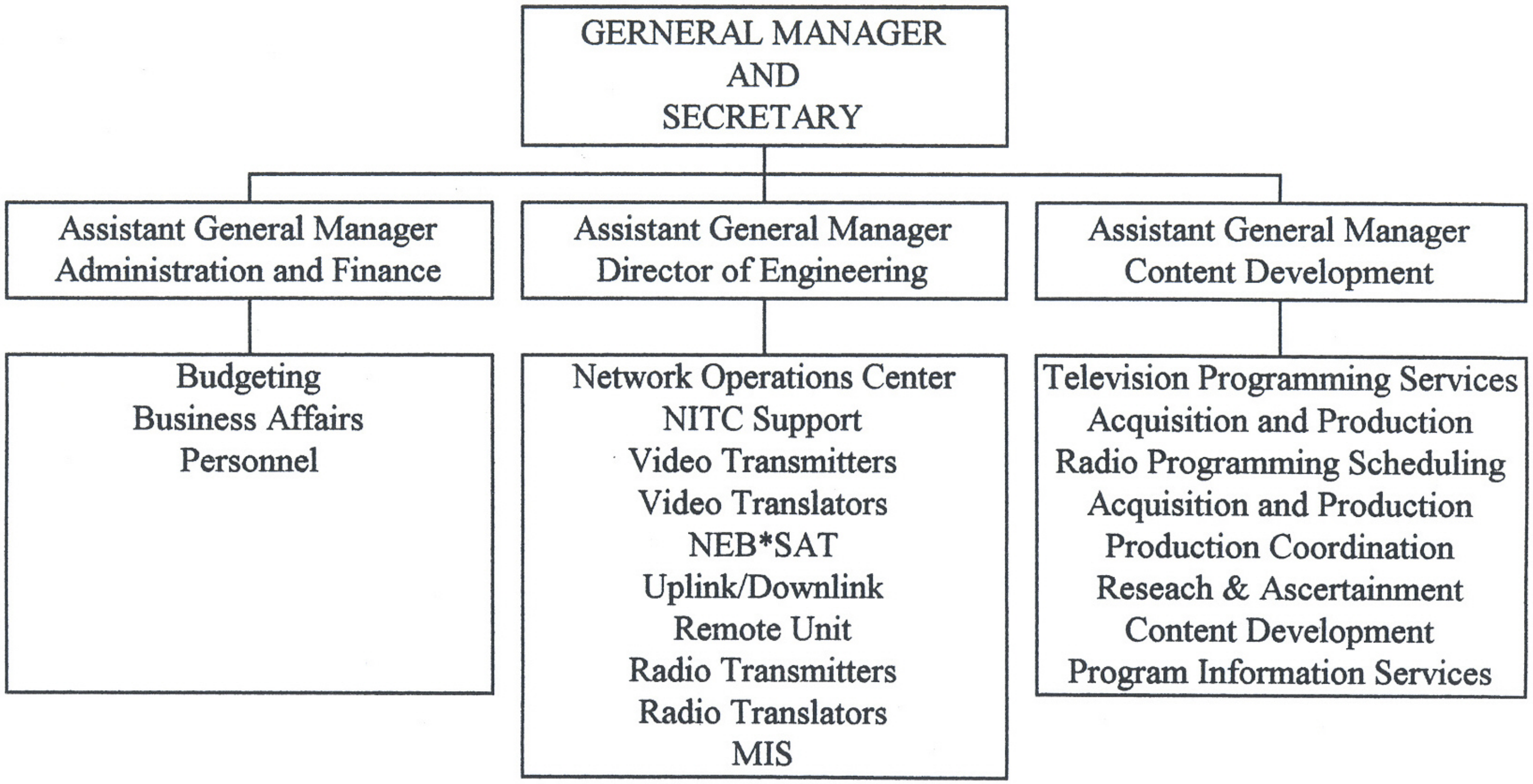
In 1986, the Legislature added specific responsibility for the development and operation of a Statewide educational and public radio service.

MISSION STATEMENT

The mission of Nebraska Educational Telecommunications is to educate, challenge, and inspire Nebraska, the nation, and the world through excellence in non-commercial telecommunications.

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held May 1, 2006, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Educational Telecommunications Commission were:

NAME	TITLE
Rod Bates	General Manager
Randy Hansen	Assistant General Manager Administration and Finance
Roxanne McIntyre	Fiscal Officer/Network Comptroller
Carissa Thelander	Accountant III

SUMMARY OF COMMENTS

During our examination 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.

1. ***Fixed Assets:*** During our review of fixed assets, it was noted:
   - Four of twenty items tested were either not able to be located or did not have proper records maintained by the Commission on NIS;
   - The Commission is not in compliance of Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999;
   - The Commission has not established guidelines for the capitalization of improvements to buildings; and
   - A physical inventory noted 480 items with a total cost of $4,469,577 were unable to be located.

2. ***Rental Agreements Documentation:*** During our review of rental receipts, it was noted all three agreements tested did not have proper supporting documentation on how the rates were determined by the Commission.

3. ***Agreement Between the Commission and the NET Foundation for Radio:*** The Commission receives monies from the NET Foundation for Radio (Foundation) for reimbursement of salaries and travel expenses. There is no written agreement between the Commission and the Foundation documenting the process and how the reimbursement process will work.

4. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

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. All formal responses received have been incorporated into this report. Where no response has been included, the Commission declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

COMMENTS AND RECOMMENDATIONS

1. Fixed Assets

As of June 30, 2005, the Commission reported fixed assets with a total original cost of $67,938,496. These fixed assets are located in the Commission's main office building in Lincoln and at various sights around the State. We performed various tests to determine if the Commission's fixed assets existed and were properly recorded on the Nebraska Information System (NIS) and other fixed asset records of the Commission. We noted the following regarding the fixed assets records maintained by the Commission:

- Four of twenty items selected from the fixed assets listing for testing could not be located or did not have proper identification on NIS to identify them.

- During our fiscal year ended June 30, 2002, audit, it was noted that a physical inventory had not been completed since 1999. During our current examination, we were able to determine the Commission had implemented procedures to perform an annual physical inventory and maintain proper fixed asset records. With these new procedures, the Commission was able to run an Unable to Locate Status Report which shows all items not located. This report was run in August 2005 and, at that time, there were 480 items on this report with a total original cost of $4,469,577. The majority of these items were purchased prior to 1999 and some back to the 1960's, but a few of the items were purchased between 2000 and 2004. Currently, the Commission does not have a formal process in place to ensure management reviews the results of the annual fixed asset inventory process including reviewing the Unable to Locate Status Report.

Good internal control requires the Commission have procedures in place to ensure all fixed asset records are maintained accurately and up to date at all times and are being reviewed by management. Management review of these procedures and the Unable to Locate Status Report would make them aware of the magnitude of fixed assets that could not be found, ensuring that reasonable procedures have been done to properly account for all fixed assets of the Commission and ensuring fixed assets had not been stolen or misused. Without good internal control, including a formal management review in place of the annual fixed asset inventory process, there is a greater risk fixed assets will be misplaced, stolen, or misused.

- The Commission has a capitalization policy for improvements to buildings established at $1,500. This dollar amount appears to be very low as a capitalization policy for improvements to building should be only those costs that would extend the life of the building and not those costs that would be incurred for maintenance of the building. In contrast, the State of Nebraska has a capitalization policy for improvements to buildings of $100,000 or more.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Fixed Assets</u> (Continued)

Good business and accounting practices would require a capitalization policy that would identify those costs that would extend the life of a building so those costs could be spread out over the new extended life of the building. When a reasonable capitalization policy for improvements to buildings is not established, the expenses, in accordance with Generally Accepted Accounting Principles (GAAP), may not be properly reflected in the Commission's separately issued financial statements and the State of Nebraska's Comprehensive Annual Financial Report (CAFR).

The Commission, by policy, does not mark all fixed assets maintained below the $1,500 threshold as "Property of the State of Nebraska." Neb. Rev. Stat. Section 81-1118.02 (3) R.R.S. 1999 states, "Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska." When fixed assets of the Commission are not marked as Property of the State of Nebraska there is a greater risk those assets will be misplaced, stolen, or misused and the Commission is not in compliance with State Statute.

We recommend the following:

- The Commission implement procedures to ensure all fixed asset records are maintained accurately and up to date at all times and the annual fixed asset inventory process is reviewed by management, including a review of the Unable to Locate Status Report;
- The Commission establish, with the advice of the Department of Administrative Services (DAS) Accounting Division, a capitalization policy for improvements to buildings that would be more consistent with GAAP; and
- The Commission implement procedures to ensure all fixed assets maintained by the Commission are marked as "Property of the State of Nebraska" in accordance with State Statute.

Commission's Response: As per our discussions at the exit conference on May 1, 2006, we are in agreement with you that there has been a lot of improvements in this specific area since your last audit in fiscal year 2002, including taking our first comprehensive physical inventory of fixed assets since 1999. But we also agree that there are still opportunities to make additional improvements and changes going forward. We do believe our fixed asset records are maintained accurately and are up to date, plus our current policies and procedures are adequate

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Fixed Assets** (Concluded)

Commission's Response, Concluded:
and sufficient to ensure the risk of loss or misuse of State funds is not increased. Although we can continue to improve these internal controls, we believe we maintain a good internal control environment for fixed assets and there is not currently a greater risk that fixed assets will be misplaced, stolen or misused.

We plan to address the issue of older, fully depreciated assets, which we are unable to locate, this summer. First, we plan to complete our second physical inventory of all the Commission's physical assets over the past 2 years. Once this is complete, we will bring to the Commission the list of the assets we are recommending for write-off. In addition, we will implement a more formal process of reviewing the "Unable to Locate Status Report" on an ongoing, periodic basis, as per your recommendation.

We do plan to change our overall fixed asset capitalization policy of individual fixed assets from $1,500 to $5,000 upon approval by the Commission at their June 2006 meeting. This will decrease the amount of recordkeeping required for depreciating our fixed assets on an ongoing basis and will simplify the process of capitalizing assets on an ongoing basis. Plus it will be consistent with our current UNTV capitalizing policy of $5,000.

In addition, will plan to work closely with the DAS Accounting Division to determine if we need to modify our capitalization policy for improvements to buildings that would be more consistent with current State of Nebraska policy and GAAP, as per your recommendation.

We will consider your recommendation for implementing a process for marking all fixed assets below our capitalization amount with a tag or stamp denoting "Property of the State of Nebraska."

2. **Rental Agreements Documentation**

Good internal control requires proper supporting documentation be on file to support the determination of rates charged to companies for the use of State equipment or services.

During our review of rental receipts, it was noted all agreements tested did not have proper supporting documentation on how the rates were determined by the Commission. The Commission collected $251,003 in rentals on 14 agreements for the fiscal year ended June 30, 2005. We noted there was a contract to support $157,694 of this amount collected, but through discussion with Commission staff it was noted the remaining 13 of these agreements, in the amount of $93,309, did not have support on how rates charged to companies for the use of State equipment or services were determined.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Rental Agreements Documentation</u> (Concluded)

Without proper documentation on how rental rates are determined, there is the risk the Commission is not obtaining a sufficient amount of income for the rental of tower space. There is also the possibility of a misappropriation or loss of State funds.

> We recommend the Commission implement written procedures to ensure policies are in place to support the determination of rental rates for each rental agreement entered into with a company. We also recommend management review these policies and rental agreements to ensure policies are being followed.

Commission's Response: We believe the internal process currently used to set these tower rental rates is adequate and fiscally very sound. First, these types of tower leases (mostly to cellular phone companies) occur very infrequently (on average once every two years or so). Thus, this is not a high volume, recurring event each year. When we do have a request for leasing our tower space, the Assistant General Manager of Engineering and Technology Services goes through a very thorough analysis to determine what rate should be charged. This includes a review of what current fair market rates are for similar tower space along with a comparison to the rates we are currently charging other customers for similar contracts. This information is then reviewed in depth with the Assistant General Manager of Admin & Finance. Together, they determine and set a competitive, reasonable rental rate for this potential transaction.

We strongly believe the current rental rates being charged and collected are very competitive and reasonable and minimize "the risk the Commission is not obtaining a sufficient amount of income for the rental of tower space." But we will commit to implementing procedures to more formalize and better document the process used to determine future rental rates, as per your recommendation.

3. <u>Agreement Between the Commission and the NET Foundation for Radio</u>

Good business practice requires contracts and agreements between Commission and other entities to document the specific responsibilities of each organization.

The Commission receives monies from the NET Foundation for Radio (Foundation) for reimbursement of salaries and travel expenses. The amount received by the Commission for this purpose was $399,928 for the fiscal year ended June 30, 2005. All Specialized Office Services (SOS) temporary, contracted, and Foundation employees were paid by the Commission and then reimbursed by the Foundation. There is no written agreement between the Commission and the Foundation documenting the process and how the reimbursement process will work. This was a prior finding in our fiscal year ended June 30, 2002, audit of the Commission.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Agreement Between the Commission and the NET Foundation for Radio (Concluded)

The Commission could possibly not be reimbursed and have no legal recourse to recoup the costs of paying for the Foundation employees.

> We recommend a written agreement be prepared and signed between the Commission and the Foundation documenting the reimbursement process and the responsibilities of each organization.

Commission's Response: The relationship between the Commission and the NET Foundation for Radio is well defined and has been functioning very effectively for many years (since 1991). The relationship is centered around the Foundation funding certain Commission employees' salaries. The Foundation has $22,000 permanently deposited in Commission cash accounts as a minimum cash balance for payroll transactions. Historically, there has never been an event that has put the Commission at risk of loss of funds related to this relationship. Although we believe that documented budget approval actions by the Foundation and the Commission address this issue, we will again reconsider this recommendation.

4. Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

> State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of $3,425,381,

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

$3,405,702, and $3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

> We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Educational Telecommunications Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Educational Telecommunications Commission (Commission) for the fiscal year ended June 30, 2005. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Educational Telecommunications Commission for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Don Dunlap CPA

May 1, 2006 Assistant Deputy Auditor

NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Education Telecomm. Cash Fund 24710	Neb Sat Cash Fund 24720	State Bldg. Fund 33000	Fed. TV Facilities Fund 44710	NET Foundation For Radio Trust Fund 64710	NETC Trust Fund 64720	**Total (Memorandum Only)**
REVENUES:								
Appropriations	$ 8,508,407	$ -	$ -	$ 7,903,330	$ -	$ -	$ -	$ 16,411,737
Intergovernmental	-	-	-	-	229,437	-	-	229,437
Miscellaneous	1,698	258,238	41,994	-	-	422,011	5,542,065	6,266,006
TOTAL REVENUES	8,510,105	258,238	41,994	7,903,330	229,437	422,011	5,542,065	22,907,180
EXPENDITURES:								
Personal Services	3,631,920	-	-	-	-	416,519	-	4,048,439
Operating	4,083,587	149,550	-	7,531,034	2,527	-	5,522,267	17,288,965
Travel	154,636	-	-	-	-	-	-	154,636
Capital Outlay	427,392	-	87,185	372,296	226,910	21,211	-	1,134,994
Government Aid	210,872	-	-	-	-	-	19,707	230,579
TOTAL EXPENDITURES	8,508,407	149,550	87,185	7,903,330	229,437	437,730	5,541,974	22,857,613
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,698	108,688	(45,191)	-	-	(15,719)	91	49,567
OTHER FINANCING SOURCES (USES):								
Sales of Assets	1,279	-	-	-	-	-	-	1,279
Deposit to General Fund	(2,977)	-	-	-	-	-	-	(2,977)
TOTAL OTHER FINANCING SOURCES (USES)	(1,698)	-	-	-	-	-	-	(1,698)
Net Change in Fund Balances	-	108,688	(45,191)	-	-	(15,719)	91	47,869
FUND BALANCES, JULY 1, 2004	63	356,279	1,240,168	-	4,392	37,776	2,463	1,641,141
FUND BALANCES, JUNE 30, 2005	$ 63	$ 464,967	$ 1,194,977	$ -	$ 4,392	$ 22,057	$ 2,554	$ 1,689,010
FUND BALANCES CONSIST OF:								
General Cash	$ -	$ 464,967	$ 1,194,977	$ -	$ 4,392	$ 22,057	$ 1,849,984	$ 3,536,377
Deposits with Vendors	63	-	-	-	-	-	-	63
Due to Vendors	-	-	-	-	-	-	(1,847,430)	(1,847,430)
TOTAL FUND BALANCES	$ 63	$ 464,967	$ 1,194,977	$ -	$ 4,392	$ 22,057	$ 2,554	$ 1,689,010

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Educational Telecommunications Commission are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, does not include amounts for goods and services received before June 30, 2005, which had not been posted to NIS as of June 30, 2005.

The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Commission are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

30000 – Construction Funds – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust. The two trust funds used by the Commission are:

Nebraska Educational Telecommunications (NET) Foundation for Radio - Trust Fund 64710 – NET Foundation for Radio (Radio Foundation) Trust Fund 64710 (the Trust Fund) is a fund that is used to account for the reimbursement primarily of payroll expenditures paid by the Commission through the State's payroll system for NET Radio employees. Funding for these employees comes from the Radio Foundation, a separate nonprofit organization chartered to support programming on NET Radio. The Commission received $422,011 from the Radio Foundation and had related expenditures of $437,730 for the fiscal year ended June 30, 2005. For more information on the NET Radio Foundation, see Note 2.

Nebraska Educational Telecommunications Commission - Trust Fund 64720 – The Commission's Trust Fund 64720 (the Trust Fund) primarily accounts for the Commission's bond transactions on NIS. In May 2002, the Commission Facilities Corporation (Corporation) issued lease revenue rental bonds. (For more information on the Corporation and the lease revenue bonds, see Notes 2 and 5.) The proceeds from the issuance of these bonds were originally deposited with Wells Fargo Bank, the bond trustee (the trustee). Part of the bond proceeds were then transferred from the trustee to the Trust Fund to be invested by the Nebraska Investment Council in the State's Operating Investment Pool (OIP). The transfer was recorded in the trust fund as a Due to Vendor (a liability account) to reflect the money was due back to the trustee. The $1,847,430 balance of Due to Vendor in the Trust Fund represents the balance due to the trustee as of June 30, 2005.

The Commission also used this Trust Fund to record expenditures on NIS of bond proceeds expended by the trustee. When expenditures were made by the trustee, the Commission prepared a journal entry to record miscellaneous revenue and to record expenditures to the appropriate expenditure account. The Commission recorded miscellaneous revenue of $5,542,065 and expenditures of $5,541,974 in the Trust Fund for the fiscal year ended June 30, 2005.

The major revenue object account codes established by NIS used by the Commission are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Commission are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Commission.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Commission include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. (For explanation of the Due to Vendor balance of $1,847,430 in Trust Fund 64720, see Note 1 - Trust Funds.)

Other Financing Sources – Deposit to the General Fund and proceeds of fixed asset dispositions.

2. State Agency

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 schedule includes all funds of the Commission included on NIS but does not include the Commission's component units, as this

NOTES TO THE SCHEDULE
(Continued)

2. State Agency (Concluded)

schedule is not reported in accordance with Generally Accepted Accounting Principles (GAAP). Component units are entities that are legally separate from the Commission, but are so intertwined with the Commission that they are, in substance, the same as the Commission. The Commission has the following component units and the financial activity of these component units would be blended with the Commission's funds if financial statements of the Commission were presented in accordance with GAAP:

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 (Commission). The Governor appoints the members of the Board of Commissioners of the Commission 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.

The outstanding bonds issued by the Corporation as of June 30, 2005, are disclosed in Note 5.

NET Foundation for Radio (Radio Foundation) - The Radio Foundation, formerly known as the Public Radio Nebraska Foundation, Inc. (PRNF), is a citizen support organization which solicits funds to be used to support program production and broadcasting of public radio in Nebraska. The Radio Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of State law. The distribution of Radio Foundation funds is determined by the Board of Directors of the Radio Foundation of which the Commission's General Manager is a member. During the fiscal year ended June 30, 2005, the Radio Foundation provided funding of $422,011 to the Commission, which was accounted for in the Commission's trust fund in support of salaries. (For further information on this fund, see Note 1 - Trust Funds.) Separate financial statements for the Radio Foundation can be obtained by contacting the Commission, 1800 North 33rd Street, Lincoln, Nebraska 68503 or (402) 472-3611.

The Nebraska Educational Telecommunications Commission is part of the primary government for the State of Nebraska.

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.

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Commission values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of $1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Building improvements and renovations in excess of $1,500 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	30 years
Equipment	3-20 years

Capital asset activity of the Commission for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	$ 130,557	$ -	$ -	$ 130,557
Buildings and Building Improvements	15,554,195	3,981,559	45,640	19,490,114
Towers and Transmitter Equipment	20,525,640	511,781	341,861	20,695,560
Production and Broadcast Equipment	25,385,649	1,679,718	2,034,116	25,031,251
Office Furniture and Equipment	2,346,255	240,221	174,988	2,411,488
Software	95,456	84,070	-	179,526
Total	64,037,752	6,497,349	2,596,605	67,938,496
Less Accumulated Depreciation				
Buildings and Building Improvements	5,326,982	879,651	14,956	6,191,677
Towers and Transmitter Equipment	7,664,262	963,841	321,920	8,306,183
Production and Broadcast Equipment	14,361,022	1,726,233	1,915,842	14,171,413
Office and Furniture Equipment	1,516,478	560,619	174,705	1,902,392
Software	95,456	20,562	-	116,018
Total Depreciation	28,964,200	4,150,906	2,427,423	30,687,683
Total Capital Assets, net of Depreciation	$ 35,073,552	$ 2,346,443	$ 169,182	$ 37,250,813

NOTES TO THE SCHEDULE
(Continued)

5. Lease Rental Revenue Bonds

On February 15, 2000, NETC Facilities Corporation issued $22,515,000 of Lease Revenue Rental bonds on behalf of the Commission. The bonds bear interest, payable semiannually, at rates of 4.35% to 6% and are due in semiannual installments, which began August 1, 2000. Principal maturities began February 1, 2001, and continue until 2010. Proceeds from the issuance of these bonds were used to pay the cost of acquiring equipment and facilities to allow the Commission to broadcast in compliance with the new digital television standard (DTV) as required by the Federal communications commission (the DTV Project) and to pay certain costs in connection with the issuance and delivery of the bonds.

On May 22, 2002, NETC Facilities Corporation issued $9,850,000 of Lease Revenue Rental bonds on behalf of the Commission. The bonds bear interest, payable semiannually, at rates of 2.7% to 4.5% and are due in semiannual installments, which began October 1, 2002. Principal maturities began April 1, 2004, and continue until 2009. Proceeds from the issuance of these bonds were used to pay the cost of renovating and remodeling the Terry M. Carpenter Telecommunications Center (the Center Project), fund reserves, and to pay certain costs in connection with the issuance and delivery of the bonds.

The Bonds are special limited obligations of the Corporation and are secured solely by and payable solely from revenues and other monies derived by the Corporation from its ownership of the DTV and Center Projects, including, in particular, lease payments funded by specific appropriations by the State of Nebraska Legislature as described under Legislative Bill 878. The Lease-Purchase Agreement and the lease payments thereunder are subject to recurring biennial appropriations by the Nebraska Legislature.

The debt service requirements as of June 30, 2005, are as follows:

	DTV Project Series 2000		Terry M. Carpenter Telecommunications Center Project Series 2002	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2006	$ 2,025,000	$ 822,300	$ 1,435,000	$ 301,187
2007	2,145,000	700,800	1,495,000	243,786
2008	2,275,000	572,100	1,555,000	183,988
2009	2,410,000	435,600	2,620,000	117,900
2010	4,850,000	291,000	-	-
Totals	$ 13,705,000	$ 2,821,800	$ 7,105,000	$ 846,861

NOTES TO THE SCHEDULE
(Continued)

6. Satellite Transponder Lease

LB 878 authorized the Commission to enter into a long-term contract for replacement of satellite capacity, with the contract period not to exceed ten years. The Commission executed a multi-year lease of two 36 MHzC-band satellite transponders and the transition of services to the new satellite was completed by February 1, 2000. The lease agreement stipulates that payments are due in monthly installments of $118,555 per transponder for a period of ten years. The life of the lease is twelve years. While the State Constitution does not allow the Legislature to approve appropriations extended beyond the current biennium, the Legislature has demonstrated a history of fulfilling funding requirements authorized in a prior biennium.

Future minimum lease payments at June 30, 2005, were:

2006	$	2,845,320
2007		2,845,320
2008		2,845,320
2009		2,845,320
2010		1,659,770
Total	$	13,041,050

7. Site License Agreements

The Commission collects a fee, based on site license agreements with businesses, for the right of the businesses to install, operate, and maintain communications equipment on Commission property. The total fees collected for these rights for the fiscal year ended June 30, 2005, was $251,000.

8. Related Parties

The following are entities related to the Commission and contribute substantially to network programs and services:

- The University of Nebraska Television Department (Department) KUON-TV 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 April 24, 2004. 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. Separate financial statements for the Department can be obtained by contacting the Commission, 1800 North 33rd Street, Lincoln, Nebraska 68503 or (402) 472-3611.

NOTES TO THE SCHEDULE
(Continued)

8. <u>Related Parties</u> (Concluded)

- NET Foundation for Television (Television Foundation), formerly known as the Nebraskans for Public Television, Inc. (NPTV), is a voluntary citizen support organization for television services. The Television Foundation is a nonprofit organization and provides a means for accepting funding and services that otherwise would not be available to NET. The Television Foundation is reported as a blended component unit of the University of Nebraska Television Department and, as such, is part of the University of Nebraska reporting entity. Separate financial statements for the Television Foundation can be obtained by contacting the Commission, 1800 North 33rd Street, Lincoln, Nebraska 68503 or (402) 472-3611.

- The Great Plains National Instructional Television Library (GPN) is one of the instructional media supermarkets. It is a service agency of NET in Lincoln, Nebraska. GPN is a developer, producer, and distributor of media resources.

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

- 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 NET.

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

- The Native American Public Telecommunications, Inc (NAPT), which is a nonprofit organization dedicated to the expression of the american heritage.

- NET is a member of the National Center for Outreach (NCO) formerly known as the Public Television Outreach Alliance (PTOA). The NCO, which is based at Wisconsin Public Television, distributes grants, provides training, and facilitates communication among outreach managers at stations across the country. The NCO is funded by the Corporation for Public Broadcasting (CPB).

- The Terry M. Carpenter Nebraska Educational Telecommunications Center (the Center) in Lincoln also houses rent free NET Foundation for Television, NAPT, and NET Foundation for Radio.

NOTES TO THE SCHEDULE
(Continued)

9. Reimbursement of Payroll Expenditures by the University

The Commission reimburses the University for personal services expenditures related to 24 University employees. The reimbursement of these expenditures is included in the annual budget approved by the Commission. Total University personal services expenditures reimbursed by the Commission for the fiscal year ended June 30, 2005, totaled $1,147,561, of which $312,871 were classified as Personal Services Expenditures and $834,690 were classified as Operating Expenditures.

10. Adjustment to the NET Foundation for Radio - Trust Fund 64720

The following accounts for Trust Fund 64720 were adjusted (decreased) from the amounts recorded on NIS to properly reflect the revenues and fund balance:

Miscellaneous Revenues	$132,120
Due to Vendor	$791,938
July 1, 2004 Fund Balance	$659,818

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NEBRASKA EDUCATIONAL TELECOMMUNICATIONS COMMISSION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Nebraska Educational Telecommunications Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Educational Telecommunications Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated May 1, 2006. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our examination, we considered the Nebraska Educational Telecommunications Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion 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 schedule. A reportable condition described in the Comments Section of the report as Comment Number 4 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined 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.

<u>Compliance and Other Matters</u>

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

We noted certain additional items that we reported to management of the Nebraska Educational Telecommunications Commission in the Comments Section of this report as Comment Number 1 (Fixed Assets), Comment Number 2 (Rental Agreements Documentation), and Comment Number 3 (Agreement Between the Commission and the NET Foundation for Radio).

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

Don Dunlap CPA

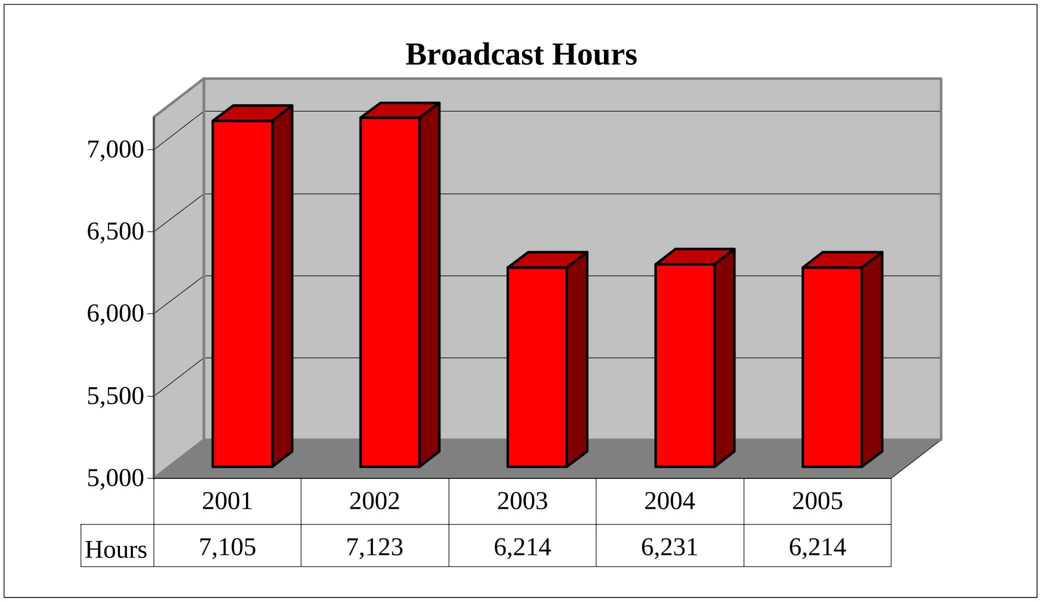
May 1, 2006 — Assistant Deputy Auditor

STATISTICAL SECTION

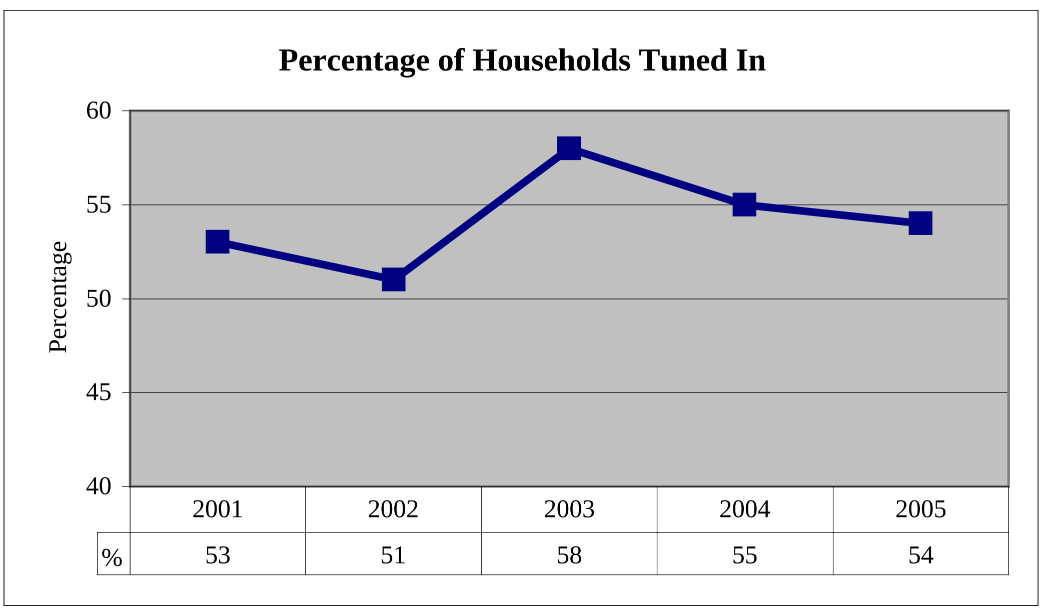
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

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 (NOC), 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:



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



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 six-channel digital satellite service which can be used for one-way video broadcast transmission between NET and over 270 sites across Nebraska and more than 500 sites across North America.

NEB*SAT Network III is a 30-channel digital satellite service, which can be used for two-way interactive, compressed audio and video between NET and over 20 sites across Nebraska.

The hours utilized on Network I were noted earlier in the report as the Broadcast hours. Networks II and III Satellite utilization, which is an accumulation of the hours broadcast over the respective networks, is noted below: