



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

January 30, 2017

Board of Trustees
Nebraska State College System
Lincoln, Nebraska

We have audited the financial statements of the business-type activities of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the NSCS's basic financial statements, and have issued our report thereon dated December 12, 2016.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the NSCS are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2016. The 2015 net position was restated as the result of errors being detected as described in Note 1 to the financial statements.

We noted no transactions entered into by NSCS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the NSCS's financial statements were:

Management's estimate of the reserve for bad debts and lives of property and equipment are based on historical rates, past experience and future projections. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered significant difficulties regarding the numerous errors noted in the financial statements when performing and completing our audit as described in Finding No. 2016-001 in our separately issued Management Letter dated December 12, 2016.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The

uncorrected misstatement of the financial statements is listed below. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Fiscal Year 2015

- Deposits Held by Others was understated by \$186,309 and Other Operating Expenses was overstated by \$186,309.

The following material misstatements detected as a result of audit procedures were corrected by management:

Fiscal Year 2016

- Net Position Restricted for Other was overstated by \$8,767,010 because an incorrect amount was used from the revenue bond audit.
- Net Position Restricted for Plant was understated by \$2,645,093 and Net Position Restricted for Debt Service was overstated by \$2,645,093.
- Current Cash and Cash Equivalents was understated by \$3,076,277 and Current Restricted Cash and Cash Equivalents was overstated by \$3,076,277.

Fiscal Year 2015

- Current Cash and Cash Equivalents was understated by \$3,349,617 and Non-current Restricted Cash and Cash Equivalents was overstated by \$3,349,617.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to NSCS's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management during the normal course of our audit.

Management Letter

We have communicated to management in a separate Management Letter dated December 12, 2016, our comments and recommendations for improvements in procedures and internal controls. We identified one significant deficiency and no material weaknesses in internal control.

Group Audit Communications

We did not note any instances in which the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. We encountered no limitations while performing our audit.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Trustees and management of the NSCS and is not intended to be, and should not be, used by anyone other than these specified parties. However, this communication is a matter of public record, and its distribution is not limited.

Sincerely,



Kris Kucera, CPA, CFE
Audit Manager