

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

JULY 1, 2008 THROUGH JUNE 30, 2009

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Issued on December 24, 2009

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

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NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska), as of and for the year ended June 30, 2009, which collectively comprise the Nebraska State College System's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Nebraska State College System's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accompanying Statements of Financial Position of Chadron State, Peru State, and Wayne State Foundations (Foundations), discretely presented component units of the NSCS, as of June 30, 2009, December 31, 2008, and June 30, 2009, respectively, and the related Statements of Activities and Cash Flows for the years then ended. Those statements are presented separately on pages 13 through 15, 18 through 20, and 23 through 25. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation, a blended component unit of the Nebraska State College System, as of June 30, 2009. The Revenue and Refunding Bond Fund and Facilities Corporation represent 9%, 45%, and 20%, respectively, of the total assets, liabilities, and revenues, of the primary government. The financial statements of the Foundations, Revenue and Refunding Bond Fund, and Facilities Corporation were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chadron State, Peru State, and Wayne State Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State College System Facilities Corporation is based solely on the reports of the other auditors.

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

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NSCS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the NSCS, as of June 30, 2009, and December 31, 2008 (Peru State Foundation), and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2009, on our consideration of the Nebraska State College System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the NSCS's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Combining Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

Signed Original on File

Lincoln, Nebraska
December 21, 2009

Don Dunlap, CPA
Assistant Deputy Auditor

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska State College System's (NSCS) financial report presents a narrative overview and analysis of the financial activities of the NSCS for the fiscal year ended June 30, 2009. The analysis has been prepared by management of the NSCS and is intended to be read with the financial statements and the related footnotes that follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE NSCS AS A WHOLE

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The audit for the fiscal year ended June 30, 2009, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSCS to finance building projects of the Board of Trustees of the Nebraska State College System on any of its campuses, through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees serve as the officers of the Facilities Corporation. Outstanding bonds issued by the Facilities Corporation include those authorized under LB 1100, passed in 1998, and LB 605, passed in 2006. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSCS Office, while the assets acquired as the result of renovations and new construction appear as assets at the individual Colleges.

Audit information from the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation is included in the report as well. With implementation of GASB Statement 39, the Foundations of the Colleges have been deemed to be component units of the NSCS. Those Foundations' financial statements are presented separately on pages 13 through 15, 18 through 20, and 23 through 25 of this report.

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

	Primary Government	
	2009	2008
Current Assets	\$ 38,715,337	\$ 43,034,220
Noncurrent Assets		
Capital Assets, Net	129,852,005	119,555,484
Other Noncurrent Assets	13,195,214	12,611,742
Total Assets	181,762,556	175,201,446
Current Liabilities	12,146,589	14,855,456
Noncurrent Liabilities	39,985,927	42,784,661
Total Liabilities	52,132,516	57,640,117
Net Assets		
Invested in Capital Assets, Net of Related Debt	90,490,338	81,215,105
Restricted	25,971,929	24,804,486
Unrestricted	13,167,773	11,541,738
Total Net Assets	\$129,630,040	\$117,561,329

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

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

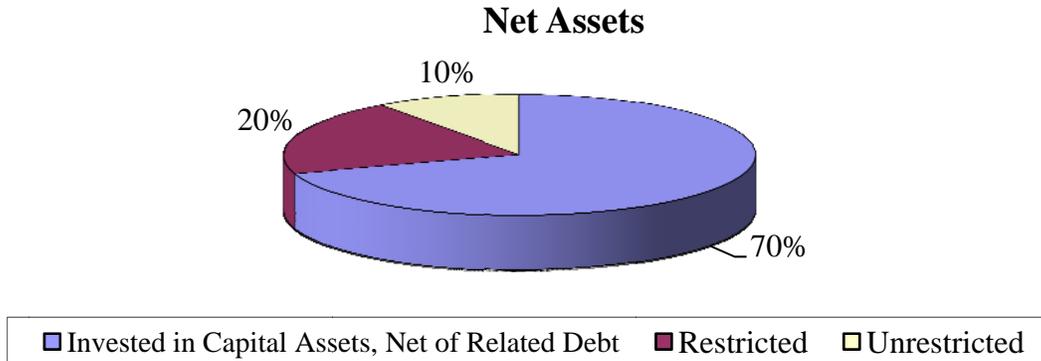
	2009	2008
Operating Revenues		
Tuition and Fees, Net	\$ 19,779,485	\$ 18,587,627
Federal and State Grants and Contracts	11,440,432	10,808,071
Private Grants and Contracts	1,405,175	1,495,782
Auxiliary Enterprises, Net	12,820,118	12,108,229
Other Operating Revenues	408,646	338,949
Total Operating Revenues	45,853,856	43,338,658
Operating Expenses	89,064,004	85,075,759
Operating Loss	(43,210,148)	(41,737,101)
Nonoperating Revenues (Expenses)		
State Appropriations	45,662,547	48,664,927
Capital Outlay	(1,480,263)	-0-
Investment Income	1,479,518	2,322,000
Interest on Capital Asset-Related Debt	(1,844,312)	(2,013,312)
Other Nonoperating (Expenses)	(261,093)	(138,031)
Total Nonoperating Revenues	43,556,397	48,835,584
Gain (Loss) before Other Revenues and Transfers	346,249	7,098,483
Capital Appropriations and Grants	7,214,460	7,712,800
Capital Contributions	2,654,696	55,061
Capital Facilities Fee	1,853,306	1,637,257
Increase in Net Assets	12,068,711	16,503,601
Net Assets, Beginning of Year	117,561,329	101,057,728
Net Assets, End of Year	\$ 129,630,040	\$ 117,561,329

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

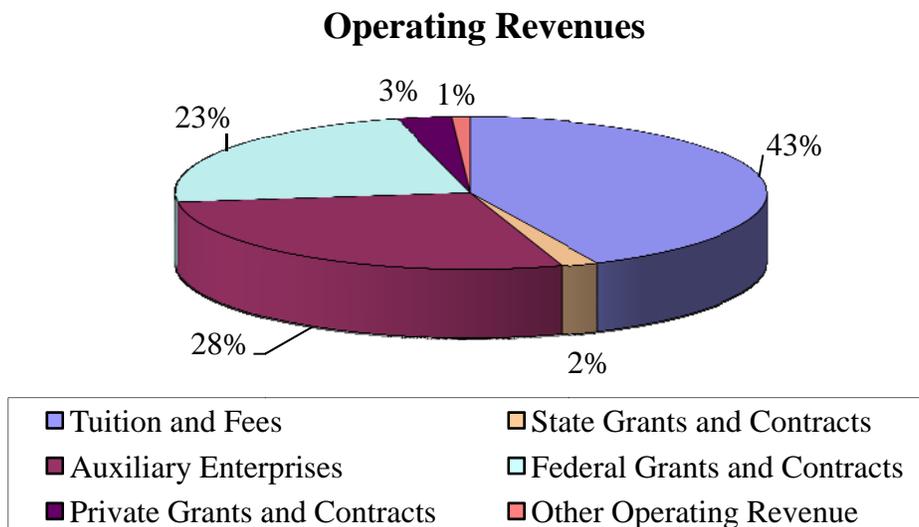
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

CHANGES IN NET ASSETS

At June 30, 2009, the NSCS had net assets of \$129.6 million, an increase of \$12.1 million or 10.3% over 2008. The net assets were comprised of Unrestricted - \$13.1 million; Restricted - \$26.0 million; and Invested in Capital Assets, Net of Related Debt - \$90.5 million.



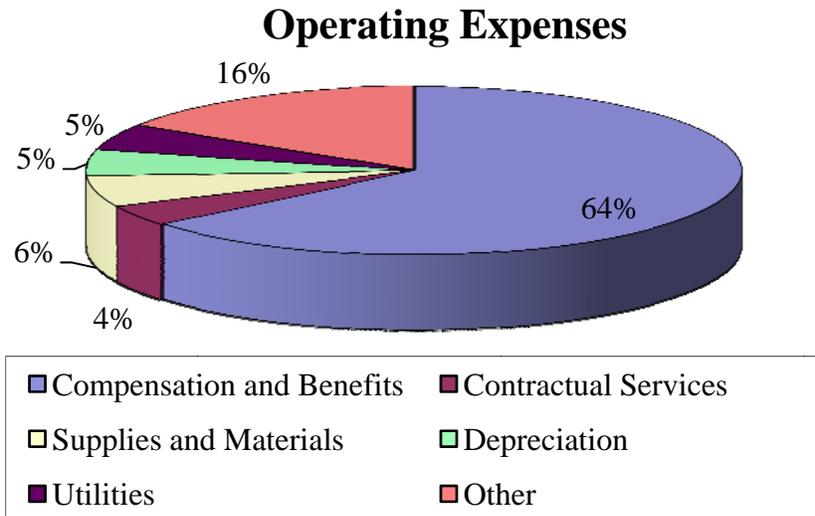
The operating revenues were \$45.9 million, compared to \$43.3 million in 2008, a 5.8% increase. Operating revenues include \$19.8 million in tuition and fees; Federal grants and contracts of \$10.4 million and State grants and contracts of \$1.1 million; private grants and contracts of \$1.4 million; auxiliary enterprises (net) of \$12.8 million, and other operating revenues of \$.4 million.



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

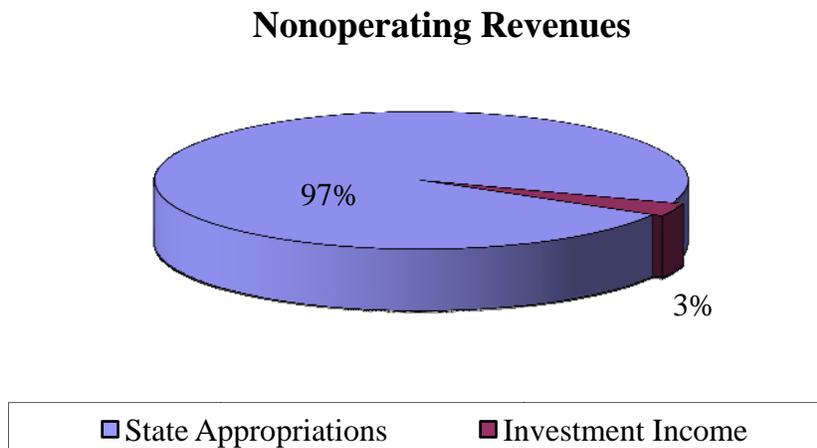
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Operating expenses for the year ended June 30, 2009, amounted to \$89.0 million, compared to \$85.1 million in 2008. Compensation and benefits accounted for \$56.5 million, or 63.5% of the total; contractual services were \$3.9 million; supplies and materials, \$5.7 million; scholarships and fellowships, \$0.9 million; depreciation, \$4.7 million; utilities, \$4.1 million; repairs and maintenance, \$1.6 million; communications, \$0.9 million; food service, \$4.4 million; and other operating expenses, \$6.3 million.



The current year operating loss amounted to \$43.2 million, compared to an operating loss in 2008 of \$41.7 million.

Nonoperating revenues consist primarily of State appropriations and investment income.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The most significant change in the Schedule of Net Assets from the fiscal year ended June 30, 2008, to the fiscal year ended June 30, 2009, includes an increase in net capital assets, most of which is related to buildings and improvements. For previously existing bond issues, a total of \$5.1 million in long-term debt was paid. Tuition and fee income increased by \$1.2 million (6.4%) related to an increase in tuition and fee rates as well as increased enrollments. Federal and State Grants and Contracts increased \$0.6 million, or 5.9%. Private Grants and Contracts decreased \$0.09 million (6%) from 2007-2008 to 2008-2009. Auxiliary Enterprise revenues were up \$0.7 million, or 5.9% from last year, reflecting both increased rates and increased participation in the revenue bond programs. Expenses for auxiliary services also reflect this increased participation, with food service costs up 4.6%. Nonoperating revenues, which increased in 2007-2008 partly due to \$5,556,000 in a one-time appropriation related to the NSCS's new administrative software. The appropriation then shows a decrease for fiscal year 2008-2009 because of the one-time increase in 2007-2008. The increase in ongoing support for the State appropriation for 2008-2009 was approximately 5.3%. There was a 36.3% decrease in investment income. This decrease in investment income is mainly due to a significant decrease in the amount of construction funds invested, as many projects related to the large LB 605 bond issue are now substantially complete. Operating expenses for the year ended June 30, 2009, increased by \$4 million, or 4.7%. Approximately \$2.1 million of the increase was in compensation and benefits. Health insurance costs continue to play a significant role in the increases for compensation and benefits. For 2008-2009, there was a change in plans offered, with plans now broken down between the following "tiers": Single, Family, Employee and Spouse, or Employee and Children. Health insurance rates for the EHA pool that the NSCS is a part of increased by an average of 5.16% in 2008-2009. Dental insurance rates for the pool increased an average of 1.82%. Utility costs increased by 12.7%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2009, the NSCS had recorded \$198.1 million in gross capital assets. During the fiscal year ended June 30, 2009, the investment in buildings and improvements increased by \$8.2 million; the investment in infrastructure increased by \$1.6 million; furniture, fixtures, and equipment increased by \$2.8 million; library materials increased by \$0.2 million; art increased by less than \$0.1 million; construction in progress increased by \$1.1 million; and land did not increase. At the end of the fiscal year, the NSCS had \$68.3 million in accumulated depreciation/amortization that left \$129.85 million in net capital assets.

At the end of the fiscal year, the NSCS had \$43.7 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$39.7 million and \$3.2 million in accrued compensated absences. Previously existing bond obligations were reduced by \$5.1 million.

Important capital improvements to the NSCS facilities continued through the fiscal year, with funding from State allocations, bonding, student fees, private funds, and revenue bond funds. The Chadron State College Academic/Administration Building project provided for full renovation of the Academic/Administration building. The project was substantially completed as

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

of June 30, 2009. The Chadron State Street/Drainage Improvement project is nearly complete. The Peru State College Emergency Power Generator project provides emergency power generation for three vital buildings on the campus in the event of catastrophic power failure. The project is complete. The Peru State College Al Wheeler Activity Center Renovation/Addition and Bleachers Replacement project offers students and staff of Peru State College a newly remodeled and expanded athletic facility, including new spectator bleachers for varsity athletic events. The project is substantially complete. The Wayne State College Campus Services Building Renovation/Addition project provided for combined facility support operations at the college in modernized and expanded facilities as well as provide for campus network services. The project is substantially complete. The Wayne State College Memorial Stadium and Rice Auditorium Improvements provided for renovation of the lower level of Rice Auditorium for academic offices and classroom space, and also renovated Memorial Stadium for use as a weight room, locker rooms, and coaches' offices. Construction is substantially complete as of June 30, 2009. The Wayne State College Carhart Science renovation project is in the first phase of multiple phases of renovation planned for the building. Phase I includes funding from LB605, the LB309 building renewal task force, college cash funds, and privately raised funds. Phase I is under construction as of June 30, 2009. Various deferred repair, and fire and life safety upgrades are in progress at all three Colleges.

Construction is underway for a new College Center at South Sioux City, as a partnership between Wayne State College and Northeast Community College. This project furthers the goals of the LR 174 Committee to attract more students to Nebraska and educate them here, thus increasing the workforce and improving economic development. The 2007 Legislature approved Wayne State College's share of the funding for a new shared facility in South Sioux City, with construction anticipated to be completed in fiscal year 2010-2011.

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

ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE

The funding picture was improved for the NSCS for the year ended June 30, 2009. The appropriation was increased 5.3% over the previous year. For fiscal year 2008-2009, the tuition increase was 5.9%, and the undergraduate per-credit-hour tuition rate was \$116.50, a very competitive level regionally. The State appropriation for 2009-2010 and 2010-2011 was increased an additional 1.5% each year for operations with additional special funding provided for the opening of the new College Center at South Sioux City. Tuition for 2009-2010 was increased by 5% to \$122.50 for resident undergraduates, which remains competitive. A special session of the Legislature was held in November 2009 to address a deterioration of the State's General Fund financial status. As a result, the NSCS's General Fund appropriations decreased by 1.8% for fiscal year 2009-2010 and by 3.5% for fiscal year 2010-2011. Internal planning to accommodate these reductions is nearly complete.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

Enrollment at the State Colleges increased by 0.2% (annual FTE) in 2008-2009, and fall enrollments are again higher for 2009-2010. The NSCS continues to engage in an increased emphasis on enrollment management and marketing.

The NSCS has completed a number of renovations to classroom and residential facilities, which continue to make the campuses attractive to both new and current students. In April 2006, the Legislature approved and the Governor signed LB 605, which provides intent to appropriate \$1,125,000 annually to the Board of Trustees for a period of 14 years beginning July 1, 2006, and continuing through the fiscal year ending June 30, 2020, to undertake maintenance, repair, and renovation projects at the State Colleges. Matching funds of \$200,000 in 2006-2007, \$400,000 in 2007-2008, and \$600,000 in 2008-2009 have already been provided and future matching funds are required by the Board of Trustees in the amount of \$1,200,000 for each of the remaining 11 years. The matching funds are provided from the State Colleges Capital Improvement Fund, which is derived from a per-credit-hour charge on all students attending a State College. LB 605 (2006) authorized the Nebraska State College Facilities Corporation to issue bonds for eligible projects. Current projects approved by the Board of Trustees include:

Chadron Academic/Administration Building renovation	\$ 4,915,322
Chadron Street/Drainage Project	500,000
Peru emergency power generator	633,876
Peru AWAC renovation/addition & bleachers replacement	5,862,097
Wayne Campus Services Building renovation/addition	5,185,466
Wayne Memorial Stadium/Rice Auditorium lower level Renovation	3,766,611
Wayne Carhart Science Renovation, Phase I	800,000
Wayne Street Improvement Project	1,516,000
	<u>\$ 23,179,372</u>

As funding allows, additional project funds may be approved for the projects above and/or for systemwide miscellaneous fire and life safety, energy conservation, deferred repair, Federal Americans with Disabilities Act of 1990, and asbestos removal projects, in accordance with LB 605.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2009

Assets

Current Assets

Cash and Cash Equivalents	\$ 19,141,400
Restricted Cash and Cash Equivalents	10,269,852
Investments Held by Trustee	1,369,997
Accounts Receivable, Net of Allowance	725,195
State Grants and Appropriations Receivable	6,149,675
Other Receivables	200,047
Inventories	141,697
Loans to Students, Net	412,195
Prepaid Expenses	286,377
Deposits with Vendors	18,902
Total Current Assets	38,715,337

Noncurrent Assets

Restricted Cash and Cash Equivalents	10,069,233
Restricted Investments Held by Trustee	255,742
Investment Income Receivable	3,581
Loans to Students, Net	2,236,897
Capital Assets, Net	129,852,005
Deferred Bond Issue Costs, Net	629,761
Total Noncurrent Assets	143,047,219

Total Assets	181,762,556
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Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	6,815,415
Accrued Compensated Absences	488,467
Other Liabilities	161,548
Deferred Revenue	372,747
Interest Payable	829,085
Long-Term Debt - Current Portion	3,093,340
Deposits Held in Custody for Others	385,987
Total Current Liabilities	12,146,589

Noncurrent Liabilities

Accrued Compensated Absences	2,699,824
Unamortized Bond Premium	234,329
Other Noncurrent Liabilities	444,955
Long-Term Debt	36,606,819
Total Noncurrent Liabilities	39,985,927

Total Liabilities	52,132,516
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(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2009

Net Assets	
Invested in Capital Assets, Net of Related Debt	90,490,338
Restricted for	
Expendable	
Loans	3,087,396
Debt Service	10,820,270
Plant	2,195,273
Other	9,868,990
Unrestricted	<u>13,167,773</u>
 Total Net Assets	 <u><u>\$ 129,630,040</u></u>

The accompanying notes are an integral part of the financial statements

(Concluded)

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

CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	1,134,603
Cash and Cash Equivalents - Restricted		306,228
Investments		7,748,630
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$35,669 for 2009		710,612
Prepaid Expenses		11,088
Other Assets		1,996,738
Property and Equipment, Net of Accumulated Depreciation		381,364
TOTAL ASSETS	\$	12,289,263

LIABILITIES AND NET ASSETS

Accounts Payable	\$	3,941
Wages Payable		38,257
Scholarships Payable		444,334
Deferred Revenue		57,594
Due to Other Agencies		589,843
TOTAL LIABILITIES	\$	1,133,969
Unrestricted Net Assets:		
Operating Fund (Deficit)	\$	(134,459)
CSC Endowment		743,805
Quasi Endowment		72,417
Campaign Initiatives		833,890
Temporarily Restricted Net Assets:		
Donor Designated		1,803,062
Named Endowment Activity		(908,639)
Athletic Endowment		8,392
Permanently Restricted Net Assets:		
Named Endowment		8,736,826
TOTAL NET ASSETS	\$	11,155,294
TOTAL LIABILITIES AND NET ASSETS	\$	12,289,263

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

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

PERU STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 274,280
Unconditional Promises to Give	9,068
Student Loans Receivable, Less Allowance for Doubtful Accounts	677
Interest Receivable	11,757
Prepaid Expenses	91,058
Current Portion of Notes Receivable	46,895
TOTAL CURRENT ASSETS	433,735

PROPERTY AND EQUIPMENT

Land	65,115
Office Furniture and Fixtures	50,193
Rental Property	210,089
TOTAL PROPERTY AND EQUIPMENT	325,397
Less Accumulated Depreciation	39,604
NET PROPERTY AND EQUIPMENT	285,793

OTHER ASSETS

Investments	7,297,805
Notes Receivable, Less Current Portion	246,083
TOTAL OTHER ASSETS	7,543,888
TOTAL ASSETS	\$ 8,263,416

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 8,837
Accrued Compensation	100,556
Accrued Expenses	3,789
Refundable Deposits	74,824
Current Portion of Gift Annuity	29,772
TOTAL CURRENT LIABILITIES	217,778

LONG-TERM LIABILITIES

Gift Annuity, Less Current Portion	186,328
Deferred Compensation Payable	269,896
TOTAL LONG-TERM LIABILITIES	456,224
TOTAL LIABILITIES	674,002

NET ASSETS

Unrestricted Net Assets:	
Operating	(208,327)
Board Designated	712,617
TOTAL UNRESTRICTED NET ASSETS	504,290
Temporarily Restricted	2,226,924
Permanently Restricted	4,858,200
TOTAL NET ASSETS	7,589,414
TOTAL LIABILITIES AND NET ASSETS	\$ 8,263,416

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

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

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

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	31,155
Cash and Cash Equivalents - Restricted		174,590
Accrued Interest		4,172
Prepaid Expenses & Misc. Receivables		1,000
Unconditional Promises to Give		1,623,362
Investments		11,542,562
Real Estate		217,500
Cash Value Life Insurance		184,495
Assets Restricted for Annuity Contracts		
Investments		670,838
Assets Held in Perpetual Trust		
Investments		673,368
		673,368
TOTAL ASSETS	\$	15,123,042

LIABILITIES AND NET ASSETS

Accounts and Faculty Grants Payable	\$	13,479
Deferred (Unearned) Event Revenue		5,345
Annuities Payable		483,641
Total Liabilities		502,465

Net Assets:

Undesignated		1,366,352
Endowment Funds Deficit		(1,262,674)
Designated		164,719
Total Unrestricted Net Assets		268,397
Temporarily Restricted		3,930,227
Permanently Restricted		10,421,953
Total Net Assets		14,620,577
TOTAL LIABILITIES AND NET ASSETS	\$	15,123,042

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Year Ended June 30, 2009

Operating Revenues	
Tuition and Fees, Net	\$ 19,779,485
Federal Grants and Contracts	10,371,296
State Grants and Contracts	1,069,136
Private Grants and Contracts	1,405,175
Auxiliary Enterprises, Net	12,820,118
Other Operating Revenues	<u>408,646</u>
Total Operating Revenues	<u>45,853,856</u>
 Operating Expenses	
Compensation and Benefits	56,491,714
Contractual Services	3,840,434
Supplies and Materials	5,692,733
Scholarships and Fellowships	906,654
Depreciation	4,724,991
Utilities	4,135,216
Repairs and Maintenance	1,626,449
Communications	920,889
Food Service	4,389,148
Other	<u>6,335,776</u>
Total Operating Expenses	<u>89,064,004</u>
Operating Loss	<u>(43,210,148)</u>
 Nonoperating Revenue (Expenses)	
State Appropriations	45,662,547
Capital Outlay	(1,480,263)
Investment Income	1,479,518
Interest on Capital Asset-Related Debt	(1,844,312)
Other Nonoperating Revenue (Expense)	<u>(261,093)</u>
Net Nonoperating Revenues (Expenses)	<u>43,556,397</u>
	(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Year Ended June 30, 2009

Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	346,249
Capital Facilities Fees	1,853,306
Capital Contributions	2,654,696
Operating Transfers In (Out)	-
Capital Appropriations and Grants	<u>7,214,460</u>
Increase in Net Assets	12,068,711
Net Assets, Beginning of Year	<u>117,561,329</u>
Net Assets, End of Year	<u><u>\$ 129,630,040</u></u>

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

(Concluded)

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

CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

REVENUES, GAINS (LOSSES), AND OTHER SUPPORT	
Fundraising Income	\$ 1,846,075
Principle Contributions to Named Endowments	189,095
Management Fees	146,240
State Income	191,150
Unrealized Loss on Investments	(788,351)
Realized Loss on Investments	(986,110)
Gain on Sale of Assets	21,162
Change in the Value of Trusts	(522,805)
Interest and Dividend Income	441,574
Event Income	61,032
Miscellaneous Income	7,890
	606,952
Total Revenues, Gains (Losses), and Other Support	606,952
Transfer Between Net Assets	-
Net Assets Released From Restrictions	-
	-
Total Support and Reclassifications	606,952
EXPENSES	
Program Services	797,297
General and Management	296,980
Fundraising	279,408
	1,373,685
Total Expenses	1,373,685
INCREASE (DECREASE) IN NET ASSETS	(766,733)
NET ASSETS, BEGINNING OF YEAR	11,922,027
NET ASSETS, ENDING	\$ 11,155,294

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

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

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

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

REVENUES, GAINS, LOSSES, AND ASSETS RELEASED FROM RESTRICTIONS	
Contributions	\$ 672,818
Special Events	13,721
Interest and Dividends	341,270
Realized Loss on Sale of Investments	(430,971)
Unrealized Loss on Investments	(2,298,067)
Miscellaneous Income	<u>10,133</u>
TOTAL REVENUES, GAINS, LOSSES, AND ASSETS RELEASED FROM RESTRICTIONS	<u>(1,691,096)</u>
EXPENSES	
Program Expenses	478,043
Management Expenses	380,846
Fundraising Expenses	262,431
TOTAL EXPENSES	<u>1,121,320</u>
INCREASE (DECREASE) IN NET ASSETS	(2,812,416)
NET ASSETS - BEGINNING OF YEAR	<u>10,401,830</u>
NET ASSETS - END OF YEAR	<u><u>\$ 7,589,414</u></u>

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

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

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

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

REVENUES AND OTHER SUPPORT	
Gift/Contributions Income	\$ 3,802,786
Interest and Dividends	274,964
Net Gain (Loss) on Investments	(2,792,557)
Other Non Gift Income	183,748
	1,468,941
Total Revenue and Other Support	1,468,941
Net Assets Released From Restrictions	-
EXPENSES	
General and Administrative	188,436
Fundraising	291,624
Program Expenses	1,987,643
	2,467,702
Total Expenses Before Amortization	2,467,702
Amortization of Annuity Contracts	63,257
	2,530,959
	2,530,959
NET INCREASE (DECREASE) IN NET ASSETS	(1,062,018)
NET ASSETS, BEGINNING OF YEAR	15,682,595
NET ASSETS, END OF YEAR	\$ 14,620,577

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2009

Operating Activities	
Tuition and Fees	\$ 19,786,064
Grants and Contracts	12,845,607
Payments to Suppliers	(23,925,599)
Payments for Utilities	(4,273,712)
Payments to Employees	(55,900,310)
Loans Issued to Students	(440,984)
Collections of Loans to Students	381,704
Sales and Services of Auxiliary Enterprises	12,821,523
Other Receipts (Payments)	(87,160)
	(38,792,867)
Noncapital Financing Activities	
State Appropriations	45,847,223
Grants and Contracts	75,347
Other Receipts (Payments)	(280,913)
	45,641,657
Capital and Related Financing Activities	
Receipt from State for Capital Purchases	3,813,483
Capital Contributions	2,654,696
Purchase of Capital Assets	(15,836,631)
Principal Paid on Capital Debt	(5,113,341)
Interest Paid on Capital Debt	(1,957,715)
Capital Facilities Fees	1,848,555
Transfers In(Out)	(828,501)
Other	95,745
Capital Appropriations	3,400,977
Net Cash Provided by Capital and Related Financing Activities	(11,922,732)
Investing Activities	
Purchase/Sale of Investments	573,199
Investment Income	1,503,426
	2,076,625
Net Cash Provided by Investing Activities	(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2009

Increase (Decrease) in Cash and Cash Equivalents	(2,997,317)
Cash and Cash Equivalents, Beginning of Year	42,477,802
Cash and Cash Equivalents, End of Year	\$ 39,480,485

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

Cash and Cash Equivalents	\$ 19,141,400
Restricted Cash and Cash Equivalents - Current	10,269,852
Restricted Cash and Cash Equivalents - Noncurrent	10,069,233
Total Cash and Cash Equivalents	\$ 39,480,485

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

Operating Loss	\$ (43,210,148)
Depreciation/Amortization Expense	4,724,991
Changes in Operating Assets and Liabilities	
Receivables, Net	(40,371)
Inventories	8,760
Prepays and Other	(19,248)
Accounts Payable and Accrued Liabilities	(777,492)
Accrued Compensated Absences	621,910
Other Assets and Liabilities	(101,269)
Net Cash Used in Operating Activities	\$ (38,792,867)

Supplemental Cash Flows Information

Accounts Payable Incurred for Capital Asset Purchases	\$ 2,868,229
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The accompanying notes are an integral part of the financial statements.

(Concluded)

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

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ (766,733)
Adjustments to Reconcile Increase (Decrease) in Net Assets	
To Net Cash Provided by Operating Activities	
Depreciation	14,434
Unrealized Loss (Gain) on Investments	788,351
Realized Loss (Gain) on Investments	986,110
Change in the Value of Trusts	522,805
(Gain) on Sale of Assets	(21,162)
Change in Beneficial Interest in Annuity	(45,470)
Proceeds from Contributions Restricted for	
Investment in Named Endowments	(180,250)
(Increase) Decrease In:	
Contributions Receivable	(434,043)
Prepaid Assets	(11,088)
Increase (Decrease) In:	
Accounts Payable	3,941
Wages Payable	1,114
Scholarships Payable	41,152
Deferred Revenue	45,470
Due to Other Agencies	(63,051)
Net Cash Provided (Used) by Operating Activities	881,580

CASH FLOWS FROM INVESTING ACTIVITIES

(Increase) Decrease in Cash Surrender Value of Life Insurance	(4,028)
Proceeds From Sale of Investments	656,758
Purchase of Investments	(1,027,783)
Purchase of Property	(24,654)
Sale of Property	59,525
Net Cash Used by Investing Activities	(340,182)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Contributions Restricted for	
Investment in Named Endowments	180,250
	180,250

Net Increase in Cash and Equivalents 721,648

CASH AND EQUIVALENTS, BEGINNING OF YEAR

719,183

CASH AND EQUIVALENTS, END OF YEAR

\$ 1,440,831

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and Equivalents - Unrestricted	\$ 1,134,603
Cash and Equivalents - Restricted	306,228
	306,228

Total Cash and Equivalents \$ 1,440,831

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

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

PERU STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF CASH FLOWS

December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ (2,812,416)
Adjustments to Reconcile Increase (Decrease) in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation	5,537
Unrealized Loss on Investments	2,298,067
Realized Loss (Gain) on Sale of Investments	430,971
In-kind Contributions	(11,805)
Deferred Compensation	3,202
Bad Debts	5,870
Changes in Current Assets and Current Liabilities:	
Decrease in Unconditional Promises to Give	3,154
Decrease in Student Loans Receivable	39
Decrease in Interest Receivable	2,250
(Increase) Decrease in Prepaid Expenses	(15,733)
Increase (Decrease) in Accounts Payable	4,572
Increase in Accrued Compensation	42,532
Increase in Accrued Expenses	3,789
Increase (Decrease) in Refundable Deposits	21,432
Net Cash (Used) Provided by Operating Activities	(18,539)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds From Sale of Investments	544,100
Purchases of Investments	(477,389)
Payments Received on Notes Receivable	48,234
Purchases of Property and Equipment	(57,220)
Net Gift Annuity (Payments) Contributions	2,700
Net Cash Provided (Used) By Investing Activities	60,425

Net Increase (Decrease) in Cash and Cash Equivalents	41,886
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	232,394
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CASH AND EQUIVALENTS, END OF YEAR	\$ 274,280
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The accompanying notes are an integral part of the financial statements.

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

WAYNE STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (1,062,018)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	5,500
Amortization of Annuity Obligations	63,257
Non-Cash Contributions	(42,403)
Net Loss (Gain) on Investments & (Reinvested Income)	2,792,557
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable/Prepays & Misc. Receivables	(2,558)
Unconditional Promises to Give	(411,419)
Cash Value Life Insurance	(9,734)
Increase (Decrease) in Operating Non-Cash Liabilities:	
Accounts Payable/Faculty Grants Payable	(2,038)
Net Cash Provided by Operating Activities	1,331,144

CASH FLOWS FROM INVESTING ACTIVITIES

Net (Purchases) of Investments	(1,301,572)
Net Cash (Used) by Investing Activities	(1,301,572)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Annuity Contracts	46,466
Payments on Annuity Contracts	(87,238)
Net Cash Provided (Used) by Financing Activities	(40,772)

NET CHANGE IN CASH AND CASH EQUIVALENTS (11,200)

Cash and Cash Equivalents, Beginning of Year	216,945
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 205,745
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The accompanying notes are an integral part of the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2009

1. Summary of Significant Accounting Policies

Organization

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

Reporting Entity

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

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

Blended Component Unit

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

In implementing GASB Statement 39 the State College Board of Trustees determined Chadron State, Peru State, and Wayne State Foundations (Foundations) are legally separate, tax-exempt nonprofit foundations incorporated in the State of Nebraska. The Foundations act primarily as fund-raising organizations to supplement the resources that are available to their respective College in support of their programs. Although the Colleges do not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon the Foundations hold and invest is restricted to the activities of their respective College by its donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, their respective Colleges, the Foundations are considered component units of the NSCS and are discretely presented on separate pages in this report.

The Foundations report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations' audited financial information as it is presented (see Note 10).

During the year ended June 30, 2009, Chadron State and Wayne State Foundations distributed \$589,843 and \$1,950,919, respectively to their Colleges; and during the year ended December 31, 2008, Peru State Foundation distributed \$527,587 to PSC for both restricted and unrestricted purposes. Separate audit reports were issued by each foundation and can be obtained from their respective administrative offices or by contacting the Nebraska State College System at P.O. Box 94605, Lincoln, Nebraska 68509-4605.

Basis of Accounting and Presentation

The NSCS statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The NSCS follows the "business-type" activities reporting format of GASB Statement No. 34. This reporting format requires the following elements:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

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

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

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

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

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

Use of Estimates

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The NSCS Cash and Cash Equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the NSCS based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which make use of amounts on deposit from the NSCS. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSCS and as such are not included in the financial statements for the year ended June 30, 2009.

The NSCS considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2009, cash equivalents consisted primarily of money market funds.

Income Tax Status

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

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

Investments and Investment Income

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

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

Accounts Receivable

The NSCS's accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts was \$427,492 at June 30, 2009, and is identified by College as follows:

WSC	\$ 172,792
CSC	\$ 145,000
PSC	\$ 109,700

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Deferred Bond Issue Costs

The NSCS's bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2009, was \$629,761, and is identified by College as follows:

WSC	\$ 72,720
CSC	\$ 128,791
PSC	\$ 25,119
NSCS Office	\$ 403,131

Inventories

The NSCS's inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Loans to Students

The NSCS makes loans to students under the Federal Perkins Loan Program. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$210,033 at June 30, 2009, and is identified by College as follows:

WSC	\$ 145,033
CSC	\$ 65,000

Capital Assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Deferred Revenue

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

Classification of Revenues

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the NSCS, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State, or nongovernmental programs, are recorded as operating revenues in the NSCS's financial statements. To the extent revenues from such programs are used to satisfy tuition and fees and other student charges, the NSCS has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended June 30, 2009, were \$9,270,530 and \$3,069,788, respectively and are identified by College as follows:

	Tuition and Fees	Auxiliary Enterprises
WSC	\$ 4,064,104	\$ 1,892,481
CSC	\$ 2,125,719	\$ 458,923
PSC	\$ 3,080,707	\$ 718,384

Recent Statements Issued by GASB –

- Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information.
- Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB), and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension plans.
- Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization and thereby enhance the comparability of the accounting and financial reporting of intangible assets among state and local governments. The NSCS implemented this particular statement in 2009 and capitalized \$4,012,387 related to internally developed software systems.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

- Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent accounting and financial reporting standards for land and other real estate held as investment by endowments, including permanent funds.
- Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

2. Deposits, Investments, and Investment Return

Deposits

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

Additional information on the deposit and investments portfolio including investment policies, risk, and type of investment can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009.

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

At June 30, 2009, the carrying value of the NSCS's bank deposits was \$13,321,854 and the bank balance was \$13,354,463. The bank balance at June 30, 2009, was entirely covered by Federal depository insurance and collateral held by the pledging institution's agent in other than the NSCS's name. State law requires collateralization of all deposits with Federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies and instrumentalities of the State of Nebraska; or a surety bond having an aggregate value at least equal to the amount of the deposits. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments

At June 30, 2009, the NSCS's investment balances, which had maturities of less than one to five years, had fair values as follows:

Investment Type		
Debt Securities		
Corporate Debt	\$	1,409,928
Other Investments		
Equity Securities		215,811
	\$	1,625,739

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

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

	Fair Value	Quality Ratings		
		AAA	AA	Unrated
Corporate Debt	\$ 1,409,928	\$ 1,369,997	\$ 31,106	\$ 8,825
Equity Securities	215,811	-	-	215,811
	\$ 1,625,739	\$ 1,369,997	\$ 31,106	\$ 224,636

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 87% are in Corporate Debt and 13% are Equity Securities.

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Summary of Fair Values

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

Fair Value		
Cash	\$	27,168
Deposits:		
Bank Deposits		13,087,901
Short Term Investment Pool		26,365,416
Investments		1,625,739
Total as of June 30, 2009	\$	41,106,224

Included in the Statement of Net Assets

Cash and Cash Equivalents	\$	19,141,400
Restricted Cash and Cash Equivalents		20,339,085
Investments held by Trustee		1,625,739
	\$	41,106,224

3. Capital Assets

During the fiscal year ended June 30, 2009, the NSCS implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. NSCS Statement No. 51 intangible assets include the internally generated SAP accounting and Student Information Systems for which a total of \$4,012,387 was capitalized at the NSCS Board of Trustees (Central Administration) level.

The NSCS capital assets activity for the year ended June 30, 2009, was:

Assets	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 689,324	\$ -	\$ -	\$ 689,324
Building and Improvements	128,920,921	9,091,769	852,076	137,160,614
Infrastructure	17,714,382	1,571,047	-	19,285,429

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Capital Assets (Concluded)

<u>Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Furniture, Fixtures, and Equipment	4,710,154	2,827,786	150,756	7,387,184
Library Materials	9,552,343	400,430	201,386	9,751,387
Art	333,603	42,260	-	375,863
Construction in Progress	22,381,204	12,409,031	11,306,655	23,483,580
	<u>\$ 184,301,931</u>	<u>\$ 26,342,323</u>	<u>\$ 12,510,873</u>	<u>\$ 198,133,381</u>

<u>Accumulated Depreciation/ Amortization</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Building and Improvements	\$ 46,790,668	\$ 2,986,850	\$ 843,556	\$ 48,933,962
Infrastructure	6,598,644	632,000	-	7,230,644
Furniture, Fixtures, and Equipment	2,949,110	658,062	145,119	3,462,053
Library Materials	8,408,025	448,078	201,386	8,654,717
Total Depreciation/ Amortization	<u>64,746,447</u>	<u>4,724,990</u>	<u>1,190,061</u>	<u>68,281,376</u>
Net Capital Assets	<u>\$ 119,555,484</u>	<u>\$ 21,617,333</u>	<u>\$ 11,320,812</u>	<u>\$ 129,852,005</u>

<u>Net Assets by College</u>	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>NSCS Office</u>	<u>Balance</u>
Land	\$ 633,728	\$ 49,395	\$ 6,201	\$ -	\$ 689,324
Building and Improvements	33,703,057	25,522,417	29,001,177	-	88,226,651
Infrastructure	6,437,764	2,821,720	2,795,301	-	12,054,785
Furniture, Fixtures, and Equipment	613,364	624,877	447,960	2,238,930	3,925,131
Library Materials	369,501	560,063	167,106	-	1,096,670
Art	174,981	45,000	155,882	-	375,863
Construction in Progress	15,092,689	5,186,719	1,537,038	1,667,135	23,483,581
	<u>\$ 57,025,084</u>	<u>\$ 34,810,191</u>	<u>\$ 34,110,665</u>	<u>\$ 3,906,065</u>	<u>\$ 129,852,005</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Loan Obligations Payable	\$ 232,879	\$ -	\$ 17,720	\$ 215,159	\$ 18,340
Revenue and Refunding					
Bonds	18,010,000	-	775,000	17,235,000	810,000
Facilities Corporation					
Bonds	26,570,000	-	4,320,000	22,250,000	2,265,000
Total Long-Term Debt					
Liabilities	<u>44,812,879</u>	<u>-</u>	<u>5,112,720</u>	<u>39,700,159</u>	<u>3,093,340</u>
Other Long-Term					
Liabilities:					
Accrued Compensated					
Absences	2,566,380	621,911	-	3,188,291	488,467
Unamortized Bond					
Premium	280,971	-	46,642	234,329	21,222
Other Liabilities	826,378	-	219,875	606,503	161,548
Total Other Long-Term					
Liabilities	<u>3,673,729</u>	<u>621,911</u>	<u>266,517</u>	<u>4,029,123</u>	<u>671,237</u>
Total Long-Term Liabilities	<u>\$48,486,608</u>	<u>\$ 621,911</u>	<u>\$ 5,379,237</u>	<u>\$ 43,729,282</u>	<u>\$ 3,764,577</u>

Termination Benefits

The NSCS has two programs which must be accounted under GASB Statement 47, *Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program. Under the voluntary retirement program, employees who are 55 years of age or more on July 1, of the year in which he or she chooses to retire, and have ten or more years of consecutive service within the NSCS will be paid one-quarter of their prior year base salary in 12 equal monthly installments following termination of employment. In addition, NSCS will pay the employee's health/dental insurance (State and employee burden) costs for the last insurance plan that the employee had during employment with the NSCS during the 12-month period following termination of employment until the employee is Medicare eligible at which time the NSCS will pay an amount equivalent to the cost of the Gold Plus Medicare Supplemental Plan for the payout period remaining. Under the early retirement program employees who have completed at least ten years of continuous service within the NSCS and are 60 years of age or older will be paid the full cost (State and employee burden) of the employee's health/dental insurance he or she had during the last year of employment prior to retirement. The college will continue to pay the health/dental insurance until the employee becomes Medicare eligible. Both programs were discontinued, except for support staff, as of June 30, 2009.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

At June 30, 2009, 13 employees at WSC, 2 employees at PSC, and 11 employees at CSC were participating in the NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. Liability amounts are reflected in the Accrued Compensated Absences line item on the Statement of Net Assets, the Combining Schedule of Net Assets, and the footnote amount above. All termination benefits are shown at present cost.

	Ending Balance	Current Portion
WSC	\$ 370,149	\$ 202,104
CSC	164,339	86,930
PSC	70,188	18,578
Total	\$ 604,676	\$ 307,612

Student Fees and Facilities Revenue Bonds

In November 2003, the Board of Trustees of the NSCS authorized the issuance of \$5,085,000 and \$1,825,000 of Student Fees and Facilities Revenue Bonds Series 2003A and 2003B. The purpose of the issuance was to finance improvements to the Colleges' facilities. Under the bond resolution for Student Fees and Facilities Revenue Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The amounts for WSC and CSC's portion of the bond obligation were \$1,825,000 and \$5,085,000, respectively, bearing interest at rates from 1.6% to 5.0%, with payments due from 2005 to 2028.

Student Fees and Facilities Revenue and Refunding Bonds

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

Nebraska State College Facilities Corporation Bonds

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

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

In August 2006, the Nebraska State Colleges Facilities Corporation authorized the issuance of \$21,915,000 of Deferred Maintenance Bonds, Series 2006. Proceeds are used to finance the construction of certain renewal and renovation projects at each of the three Colleges. This bond issue is a general obligation of the Nebraska State College Facilities Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations and special student fees. The bonds bear interest payable semiannually, at rates of 3.55% to 5.00% and are due in semiannual installments, which began January 15, 2007. Principal maturities began July 15, 2007, and continue until 2020.

PSC Loan Obligation

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

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

PSC Loan Obligation Payable

Year Ending June 30	Principal	Interest	Total
2010	\$ 18,340	\$ 7,531	\$ 25,871
2011	18,982	6,889	25,871
2012	19,647	6,224	25,871
2013	20,334	5,537	25,871
2014	21,046	4,825	25,871
2015-2019	116,810	12,545	129,355
Total	<u>\$ 215,159</u>	<u>\$ 43,551</u>	<u>\$ 258,710</u>

WSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2010	\$ 360,000	\$ 369,219	\$ 729,219
2011	375,000	356,481	731,481
2012	385,000	342,529	727,529
2013	400,000	327,435	727,435
2014	420,000	311,199	731,199
2015-2019	2,360,000	1,271,576	3,631,576
2020-2024	2,020,000	758,518	2,778,518
2025-2028	2,000,000	206,000	2,206,000
Total	<u>\$ 8,320,000</u>	<u>\$ 3,942,957</u>	<u>\$ 12,262,957</u>

CSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2010	\$ 340,000	\$ 262,816	\$ 602,816
2011	345,000	250,483	595,483
2012	235,000	239,861	474,861
2013	200,000	231,823	431,823
2014	205,000	223,974	428,974
2015-2019	1,155,000	982,292	2,137,292
2020-2024	1,455,000	668,319	2,123,319
2025-2029	1,880,000	244,500	2,124,500
Total	<u>\$ 5,815,000</u>	<u>\$ 3,104,068</u>	<u>\$ 8,919,068</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

PSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2010	\$ 110,000	\$ 141,383	\$ 251,383
2011	110,000	137,422	247,422
2012	120,000	133,078	253,078
2013	120,000	128,368	248,368
2014	125,000	123,467	248,467
2015-2019	710,000	531,526	1,241,526
2020-2024	905,000	341,172	1,246,172
2025-2028	900,000	92,500	992,500
Total	<u>\$ 3,100,000</u>	<u>\$ 1,628,916</u>	<u>\$ 4,728,916</u>

Facilities Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2010	\$ 2,265,000	\$ 918,498	\$ 3,183,498
2011	1,455,000	837,982	2,292,982
2012	1,515,000	778,582	2,293,582
2013	1,575,000	716,781	2,291,781
2014	1,635,000	644,407	2,279,407
2015-2019	9,435,000	1,966,277	11,401,277
2020-2022	4,370,000	186,299	4,556,299
Total	<u>\$ 22,250,000</u>	<u>\$ 6,048,827</u>	<u>\$ 28,298,827</u>

NSCS Bond Summary

Year Ending June 30	Principal	Interest	Total
2010	\$ 3,075,000	\$ 1,691,916	\$ 4,766,916
2011	2,285,000	1,582,368	3,867,368
2012	2,255,000	1,494,050	3,749,050
2013	2,295,000	1,404,408	3,699,408
2014	2,385,000	1,303,047	3,688,047
2015-2019	13,660,000	4,751,671	18,411,671
2020-2024	8,750,000	1,954,308	10,704,308
2025-2029	4,780,000	543,000	5,323,000
Total	<u>\$ 39,485,000</u>	<u>\$ 14,724,768</u>	<u>\$ 54,209,768</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Concluded)

The bond resolutions of the Facilities Corporation Bonds, the Refunding Bonds, and the Revenue Bonds specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for the funds' investments. The bond resolutions also contain certain covenants, including compliance with a ratio of net revenues to debt service. At June 30, 2009, the NSCS was in compliance with these requirements.

5. Capital and Operating Leases

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

Future minimum capital lease payments for PSC and CSC as of June 30, 2009, were:

2010	\$	179,385
2011		178,865
2012		179,115
2013		<u>106,762</u>
Total Minimum Payments		644,127
Less: Interest and executor costs		<u>41,420</u>
Present value of net minimum payments	\$	<u><u>602,707</u></u>

Noncancellable operating leases related primarily to learning facility expenses expire in various fiscal years through 2011. These leases generally contain renewal options for periods ranging from one to two years and require the NSCS to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future minimum operating lease payments at PSC as of June 30, 2009, were:

2010	\$	31,250
2011		<u>13,021</u>
	\$	<u><u>44,271</u></u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. Pension Plan

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board of Trustees and may be amended by legislative action. The plan covers all faculty, professional staff, and support staff, and provides investment options and annuity contracts administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and may be amended by action of the Board of Trustees. Contribution rates for plan members and the NSCS for 2009, expressed as a percentage of covered payroll, were 4.5% to 6.0% and 8%, respectively. Contributions actually made for the fiscal year ended June 30, 2009, by plan members and the NSCS aggregated were \$2,274,120 and \$3,037,135, respectively.

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

The NSCS also sponsors a supplemental retirement annuity plan. Plan members contributed \$847,268 in 2009. The NSCS does not contribute to this supplemental plan.

7. Risk Management

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

The NSCS has chosen to purchase insurance for:

- A. Health care and life insurance for eligible employees.
- B. General liability coverage, with limits ranging from \$1,000,000 per occurrence to \$5,000,000 in aggregate.
- C. Employee benefits liability, with a limit of \$1,000,000 per each employee and \$1,000,000 annual aggregate.
- D. Director and officer liability, with a limit of \$2,000,000 and a self-insured retention of \$100,000.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Risk Management (Concluded)

E. Real and personal property on a blanket basis for losses up to \$500,000,000, with self insurance of \$1,000,000 per loss occurrence and a deductible of \$25,000. Newly acquired properties are covered up to \$100,000,000 for 90 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

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

8. Commitments and Contingencies

Construction Contracts

The Board of Trustees has authorized and approved construction commitments of \$16,752,678 as of June 30, 2009. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

WSC	\$	14,952,611
CSC	\$	1,299,637
PSC	\$	500,430

Government Grants

The NSCS is currently participating in numerous grants from various departments and agencies of the Federal and State governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the grant department or agency, the grants are considered closed.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

9. Restricted Net Assets

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

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

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

Other includes \$811,032 in funds set aside by the Board of Trustees for various endowments and student scholarships, \$5,749,284 in unexpended information system project authorizations, and \$1,874,417 in unexpended Facilities Corporation project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

10. Component Unit Disclosures – Foundations

On the following pages are the notes taken directly from the audited financial statements of the College Foundations:

Chadron State Foundation – Pages 46 – 59

Peru State Foundation – Pages 60 – 68

Wayne State Foundation – Pages 69 - 81

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Chadron State Foundation (the Foundation) is a nonprofit organization incorporated in the State of Nebraska in 1963 to promote the education, scientific, and benevolent purposes of Chadron State College (the College).

The Foundation acts largely as a fund-raising organization, soliciting and receiving contributions and pledges on behalf of the College. Assets received by the Foundation are used to acquire equipment to be used by the College, to provide financial aid for college students, or to be otherwise expended for the betterment of the College.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Designation of Unrestricted Net Assets - It is the policy of the Board of Directors of the Foundation to designate appropriate sums of unrestricted net assets to assure adequate reserves are accumulated to help fund specific future events and the general operations of the Foundation. Accordingly, unrestricted net assets of the Foundation are classified and reported as follows:

Operating - The portion of unrestricted net assets that is undesignated and available for the day-to-day operations, support, and management of the Foundation.

CSC General Fund - Represents the annual accumulation of unrestricted gifts of \$4,999 or less received by the Foundation. These funds must first be used to address any operating deficits for the current fiscal year. The remaining balance will be transferred to the initial Fund Balance of the CSC Quasi Endowment.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Designation of Unrestricted Net Assets (Continued)

Quasi Endowment - Represents unrestricted gifts designated by the Board of Directors that must adhere to the policies and procedures of Section IV of the Chadron State Foundation Endowment Policy & Guidelines.

Campaign Initiatives - Represents unrestricted gifts and pledges of \$5,000 or more that will be allocated per recommendation of the Development Committee and approved by the Board of Directors. Such recommendations will be based on the initiatives and priorities of the Foundation and, when appropriate, campaign leadership committee. Such recommendations must be approved by the Board of Directors each quarter or per special meetings. Upon approval by the Board of Directors, these gifts and pledges will be accounted for in the appropriate board designated fund.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Foundation considers all cash in banks to be cash and cash equivalents. Restricted cash and cash equivalents are limited to use as the Foundation acts as a custodian for clubs and organizations of Chadron State College as further discussed in Note 8.

Investments - Investments are reported at fair value. Fair value is the price that would be received if the Foundation was to sell an asset in an orderly transaction between market participants at the measurement date. Investments are comprised of limited liability investment groups, which invest in debt and equity securities and are carried at fair value determined using the following valuation methods:

- Securities traded on a national or regional securities exchange are valued at the last sales price if the security is traded on the valuation date.
- Securities not listed on an exchange or securities in which there were no reported transactions are valued at the mean between the last current closing bid and ask prices.
- Fixed-income securities are valued at prices obtained from pricing services when such prices are available, subject to review by the respective Fund's investment advisor.
- Securities or other assets for which reliable recent market quotations are not readily available are valued at fair value as determined in good faith by the managing member of the investment advisors.

Security transactions are accounted for on the date the securities are purchased or sold. Realized gains and losses are calculated using the specific identification method. Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions - Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. However, if a restriction is fulfilled in the same time period the contribution is received, the Foundation reports the support as unrestricted. Gifts and contributions are recorded at fair value at the time of donation. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which promises are to be received.

Contributed Materials and Services - The Foundation records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. Total contributed materials and services recognized for the year ending June 30, 2009 was \$55,975.

Revenue Recognition - The Foundation reports contributions as support when assets are received or when an unconditional promise to give has been made. Allowances are provided for amounts estimated to be uncollectible, based on a history of past write-offs and collections. Accounts are written off as uncollectible at the time management determines that collection is unlikely. Revenue from other sources is recorded as earned.

Property and Equipment - The purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. When items are disposed of, the cost and accumulated depreciation are eliminated from the records of account, and a gain or loss is reported in the statement of activities. Repair and maintenance charges that do not increase the useful lives of the assets are charged to the change in net assets as incurred.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Capitalization thresholds (the dollar value above which individual asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	N/A	N/A
Office Equipment	\$ 1,000	3 – 15 yrs
Rental Property	\$ 1,000	39.5 – 50 yrs

Collections - Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor restricted assets. Contributions of collection items are not recognized in the statement of activities. Proceeds from disposal are reflected on the statement of activities based on the absence or existence and nature of donor imposed restrictions.

The Foundation has a collection of artwork and other memorabilia that were donated by several supporters of Chadron State College. The collection is on display and is available to those who are interested in studying Nebraska state history. The Foundation has taken steps to ensure that the collection is protected and preserved. It is the policy of the Foundation that proceeds from the sale of any collection items are to be used to purchase additional collection items. Contributions to the collection are not reflected in the accompanying financial statements since the Foundation does not capitalize collections. There were no donations of collection items received for the year ended June 30, 2009.

Income Tax Status - The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(1) and qualifies for deductible contributions under Section 170(b)(1)(A)(vi).

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities, accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 - CASH AND EQUIVALENTS

The Foundation maintains several bank accounts. The table below is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured. FDIC regulations state time and savings accounts are insured up to \$250,000 maximum at June 30, 2009. The total bank balance represents the amount held by the bank. The carrying balance represents the reconciled general ledger balance at June 30, 2009.

Category 1 - Insured by FDIC or collateralized with securities held by the Foundation or by its agent in its name, or by the Transaction Account Guarantee (TAG) portion of the Temporary Liquidity Guarantee Program of the FDIC.

Category 2 - Uninsured by FDIC.

Category 3 - Uninsured and unregistered investments held by the counterpart, its trust or its agent, but not in the Foundation's name.

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Balance</u>	<u>FDIC Coverage Category 1</u>	<u>No FDIC Coverage Category 2</u>	<u>Collateralized Category 3</u>
Demand Deposits:					
Bank of the West					
Operating Account	\$ 13,463	\$ 13,463	\$ 13,463	\$ -	\$ -
North Platte Bank					
Operating Account	1,137,116	1,121,140	250,000	-	887,116
First National Bank - Chadron					
Custodial Account	377,932	306,228	377,932	-	-
	<u>\$ 1,528,511</u>	<u>\$ 1,440,831</u>	<u>\$ 641,395</u>	<u>\$ -</u>	<u>\$ 887,116</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 3 - CONTRIBUTIONS

Contributions receivable at June 30, 2009 were as follows:

	<u>2009</u>
Receivable in Less Than One Year	\$ 231,876
Receivable in One to Five Years	550,256
Receivable in Six to Ten Years	<u>18,733</u>
Total Contributions Receivable	\$ 800,865
Less Unamortized Discounts to Net Present Value	(54,584)
Less Allowance for Uncollectable Accounts	<u>(35,669)</u>
Net Contributions Receivable	<u>\$ 710,612</u>

The discount rates used on long-term promises to give were 4.0% for the year ended June 30, 2009.

NOTE 4 - INVESTMENTS

Effective July 1, 2008 the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 has been applied prospectively as of the beginning of the 2009 fiscal year.

FAS 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 4 – INVESTMENTS (CONTINUED)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

The Foundations investments are managed in individual equity and debt portfolios of Limited Liability Company's (LLC's) by an external investment management firm. Each portfolio is made up of individual equity and debt positions in which the Foundation holds a percentage interest similar to a mutual fund. These individual funds are not priced or quoted in an active market (Level 1), but the assets inside of each fund can be priced in an active market under the valuation methods described in Note 1 (Level 2).

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2009:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
LLC Groups:				
MGA Diversified Core Equity LLC	\$ 1,589,735	\$ -	\$ 1,589,735	\$ -
MGA Focused Core Equity LLC	702,501	-	702,501	-
MGA Diversified Sm/Mid Cap	630,730	-	630,730	-
MGA Focused Small Cap Equity	340,759	-	340,759	-
MGA International Equity LLC	720,009	-	720,009	-
MGA Cash Reserves LLC	444,492	-	444,492	-
MGA Core Income LLC	1,351,430	-	1,351,430	-
MGA Total Return LLC	1,603,871	-	1,603,871	-
MGA Tactical Opportunity LLC	365,103	-	365,103	-
Total Investments	\$ 7,748,630	\$ -	\$ 7,748,630	\$ -

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 4 – INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return in the statement of activities for the year ended June 30, 2009:

	2009
Interest and dividend income	\$ 433,685
Net realized gains (losses)	(986,110)
Net unrealized gains (losses)	(788,351)
Management fees	(73,867)
Total	\$(1,414,643)

NOTE 5 - OTHER ASSETS

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The carrying amounts (which are at fair value) of beneficial interests in trusts are based on values provided by an external investment manager, quoted market values, or actuarial valuations. Net realized and unrealized gains and losses related to beneficial interests are reported as changes in net assets based on donor stipulations. The Chicoine Trust is payable upon death of the donor and there are no rights within the trust to redirect these funds. The Lindeken Estate Bequest payment to the Foundation has been extended to December 1, 2009. The fair value of the beneficial interests at June 30, 2009 were as follows:

	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Chicoine Trust	\$1,405,766	\$ -	\$1,405,766	\$ -
Beneficial Interest in Lindeken Estate	500,000	-	-	500,000
Bequest Cash Surrender Value of Life	33,378	-	-	33,378
Insurance Beneficial Interest in Annuity	57,594	-	-	57,594
Total Other Assets	\$1,996,738	\$ -	\$1,405,766	\$ 590,972

Assets measured at fair market value using significant unobservable inputs (level 3) in an inactive market changed as follows:

	Beneficial Interest in Lindeken Estate Bequest	Cash Surrender Value of Life Insurance	Beneficial Interest in Annuity
Beginning balance, July 1, 2008	\$ 500,000	\$ 29,350	\$ 12,124
Purchases, issuance, settlements	-	2,821	43,406
Total gains (realized, unrealized)	-	1,207	2,064
Ending balance, June 30, 2009	\$ 500,000	\$ 33,378	\$ 57,594

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consisted of the following:

Land	\$ 38,500
Office Equipment	33,799
Rental Property	<u>365,740</u>
	\$ 438,039
Less Accumulated Depreciation	<u>(56,675)</u>
Property & Equipment, Net of Accumulated Depreciation	<u><u>\$ 381,364</u></u>

NOTE 7 - LINE OF CREDIT

In May 2009, The Foundation obtained a \$100,000 line of credit from First National Bank – Chadron to help finance its short-term capital needs for the purchase of software, service, training and maintenance. This line is collateralized by nearly all of the Foundations assets, and interest is payable on outstanding balances at an interest rate of 3.25%. No borrowings occurred during the year, and none have occurred through the date of the independent auditors' report.

NOTE 8 - RELATED PARTIES

The Foundation, in the normal course of business, engages in transactions with Chadron State College. The College has been designated as the beneficiary of the Foundation. The Foundation pays all scholarships and contributions to the College's students and departments.

The Foundation acts as an agent to the clubs and organizations of Chadron State College. It maintains the cash accounts and provides bookkeeping services for these clubs and organizations. At June 30, 2009, the restricted cash balance was \$306,228. The amount held in endowed investments as of June 30, 2009 was \$283,615 and the total due to other agencies balance was \$589,843.

The Foundation maintains the custodial bank account and an operating line of credit at the First National Bank of Chadron in which a board member of the Foundation serves as the bank President. Carrying values for the custodial account were \$306,228 at June 30, 2009. No advances have been made on the line of credit as of the date of the audit report. See Note 7 for additional information on the line of credit.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 9 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS

The Foundation has adopted Financial Accounting Standards Board, Statement of Financial Accounting (SFAS) No. 124, "Accounting and Disclosure of Certain Investments in Debt and Equity Securities Held by Nonprofit Organizations", which requires that nonprofit entities reflect the market value of their investments on the statement of financial position.

When the Foundation receives restricted donations it maintains the principal amount of that donation and any future income portion the donor also stipulates. These amounts are recorded as temporarily or permanently restricted based on the donor stipulations. If no donor restrictions are indicated, these amounts are recorded as unrestricted net assets. These donations may be transferred to investments upon receipt, or at a later date.

If the investment value drops below the amount of its restricted endowments, it may be required to transfer money from the operating account to cover the deficit in accordance with FASB SFAS No. 124.

The fair market value of the investments related to the restricted endowment at June 30, 2008 was \$8,875,163, and the principal amount of the investments was \$8,496,235.

NOTE 10 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS - AFTER IMPLEMENTATION OF FSP 117-1

In August 2008, The Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds: (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Investments - Board-designated Endowment - As of June 30, 2009, the Board of Directors had designated \$72,417 of unrestricted net assets as a general quasi endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Gifts assigned to a quasi endowment shall be divided into two separate fund balances. One shall be called the "Initial Fund Balance" and one shall be called the "Quasi Endowment Fund Balance". The balance for either the Initial Fund Balance or Quasi Endowment Fund Balance shall be determined as of June 30th of each fiscal year. The annual payout from each of these fund balances shall be calculated individually as hereinafter stated:

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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 10 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS - AFTER IMPLEMENTATION OF FSP 117-1 (CONTINUED)

Initial Fund Balance - The Initial Fund Balance for each fiscal year shall consist of the value of all contributions to a quasi endowment. The annual payout from this segment of the quasi endowment shall be set by action of the Finance Committee and ratified by the Foundation Board and shall be consistent with the long term goal of portfolio growth and perpetual support to Chadron State College (CSC). The annual payout from this portion can be up to but not exceed 50% of the fund balance. Any remaining balance after deducting the annual payout shall be transferred by the Foundation to the Quasi Endowment Fund Balance.

Payout from the Quasi Endowment Fund Balance - The annual payout from this segment of the endowment shall be set by action of the Finance Committee and ratified or approved by the Foundation Board consistent with the investment policy and long term goal of portfolio growth and perpetual support of CSC. In accordance with GAAP, the Foundation Board has the discretion to allow payouts from the corpus and principal of a Quasi Endowment Fund Balance. However, the Board has chosen by policy to treat a Quasi Endowment Fund Balance as a Named Endowment and paid out accordingly. See Donor-designated Endowment spending policy.

Investments - Donor Designated Endowments – The Foundation's endowment consisted of approximately 305 individual funds established for a variety of purposes. Its endowment includes both donor-restricted and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated from the expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 10 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS - AFTER IMPLEMENTATION OF FSP 117-1 (CONTINUED)

duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from the income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Foundation has adopted investment and spending policies, approved by the Board of Directors, for the endowment assets that attempt to provide long-term support to CSC. Accordingly, the investment philosophy of the Foundation is based on a disciplined, consistent, and diversified approach utilizing multiple asset classes and allows for multiple managers. Their intent is to accommodate styles and strategies considered reasonable and prudent. Given the characteristics of the Foundation, the long-term investment objective for the portfolio is to earn an average total return of at least 8.8% per year. Since 1925, the average annualized return for intermediate government bonds has been 5.3% while large-cap stocks have returned 10.4% per year, gross of fees. A mix of 60% stocks and 40% bonds has averaged 8.8% gross of fees while inflation has averaged 3.0%. If the total return objective is not achieved over a particular measurement period, the shortfall should be explainable in terms of general economic and capital market conditions. A temporary shortfall will not necessarily indicate failure to achieve the long-term objective. However, periods in which the total return is less than 8.8% must be offset by periods in which it is greater than 8.8%. An important objective of the Foundation board of Directors is to create an investment and spending program that allows for growth of the portfolio balance.

Spending Policy - Distributions from Named Endowment are to be according to the Foundation's Endowment policies. Grant levels are based on the weighted average fund balance, using the adjusted pool of awarding endowments during the past three (3) fiscal years. The distribution approved by the Foundation Board shall not exceed five percent (5.0%) of the weighted average fund balance. Distribution from any individual endowment shall be according to restrictions within that controlling endowment. Distributions from and Quasi Endowment shall be according to its controlling restrictions. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 10 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS - AFTER IMPLEMENTATION OF FSP 117-1 (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ (900,247)	\$ 8,736,826	\$ 7,836,579
Board-designated endowment funds	72,417	-	-	72,417
Total funds	<u>\$ 72,417</u>	<u>\$ (900,247)</u>	<u>\$ 8,736,826</u>	<u>\$ 7,908,996</u>

Changes in endowment net assets as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 902,997	\$ 8,496,235	\$ 9,399,232
Contributions	-	8,845	180,250	189,095
Investment Income, net of fees	-	(599,714)	-	(599,714)
Net appreciation	-	(753,117)	-	(753,117)
Transfers	72,417	(23,944)	60,341	108,814
Amounts appropriated for expenditures	-	(435,314)	-	(435,314)
Endowment net assets, end of year	<u>\$ 72,417</u>	<u>\$ (900,247)</u>	<u>\$ 8,736,826</u>	<u>\$ 7,908,996</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	2009
Scholarships and College Use	\$ (502,951)
Chicoine Trust – Time Restrictions	1,405,766
	<u>\$ 902,815</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2009</u>
Purpose Restriction Accomplished:	
Scholarships	\$ 359,066
College Use	103,223
Management Fees	146,240
Investment Fees	<u>74,244</u>
 Total Restrictions Released	 <u>\$ 682,773</u>

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2009, net assets were permanently restricted for the endowment in the amount of \$8,736,826. The income from the endowment can be used to support Chadron State College as the need is greatest as determined by the College President. At June 30, 2009, the fair value of investments related to the restricted endowment was \$7,465,015, leaving the amount assigned to individual donor restricted endowments required to be maintained in perpetuity with a \$1,271,811 deficiency.

NOTE 13 - DEFINED CONTRIBUTION PLAN

The Organization participates in the College's defined contribution plan (the Plan) covering all employees with at least three years of service who agree to make contributions to the Plan. Employees may enroll in the Plan if they are employed full time for 9 out of 12 months of the year. Participation in the Plan is voluntary for employees who are 25 years of age and have been employed at least two years by the Foundation. Participation in the Plan is mandatory for employees over the age of 30. Employees contribute 6% of their salary and the College contributes 8%. Total expenses for the year ended June 30, 2009 were \$17,823.

NOTE 14 - SUBSEQUENT EVENT

At the August 2009 meeting of the Board of Directors, approval was given to transfer the Chicoine House, which is included in Property and Equipment on the Statement of Financial Position at assessed value of \$365,740, net of related depreciation of \$46,296, to Chadron State College. The house will be transferred as support to the College in exchange for \$1 and will be used as the residence for the College President.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of PERU STATE FOUNDATION (the Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

PERU STATE FOUNDATION is a nonprofit foundation incorporated in the State of Nebraska. The purpose of the Foundation is to operate as a charitable and educational foundation for the promotion and support of Peru State College (the College) and its students. The Foundation is governed by a self-perpetuating Board of Trustees consisting of volunteer board appointed members, some of whom are significant donors to the Foundation. The Foundation is considered a component unit of Peru State College; therefore, the Foundation's net assets and results of operations are included as a component unit in the Peru State College financial statements.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets, unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent resources over which the Board of Trustees has discretionary control and are used to carry out the operations of the Foundation in accordance with its bylaws.

Temporarily restricted net assets represent resources subject to donor-imposed restrictions until such time as the restriction is met, whether it is the expiration of a time period or the occurrence of an event. Temporarily restricted net assets are available for various scholarship and departmental expenses for the College.

Permanently restricted net assets represent resources subject to donor-imposed restrictions. Permanently restricted net assets are available for scholarships for qualifying students attending the College.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Public Support and Revenue

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor.

Grants and other contributions of cash and other assets are recorded as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded as unrestricted net assets. Investment earnings with donor restrictions are recorded as temporarily or permanently restricted net assets based on the nature of the restrictions.

Contributions of donated noncash assets are recorded at their estimated fair values in the period received.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Foundation considers highly liquid investments with maturities of three months or less to be cash and cash equivalents. The Foundation maintains several bank accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at December 31, 2008. Cash at December 31, 2008, did not exceed federally insured limits. The Foundation requires the banks with which it does business to provide collateral for amounts exceeding federal insurance coverage. Two banks have pledged securities for an additional \$100,000 of collateral.

Unconditional Promises to Give

Unconditional promises to give are recorded as receivables and revenues when received. Unconditional promises to give that are due in the next year are reflected as current promises to give and are recorded at their estimated net realizable value. The majority of the promises to give are received from a broad base of alumni as a result of the annual campaign. The Foundation regularly reviews the listing of unconditional promises to give to determine collectibility.

Student Loans Receivable

Student loans receivable are carried at the original loan amount, less an allowance for doubtful accounts. The Foundation determines the allowance for doubtful accounts by regularly evaluating individual student loan receivables and considering the student's financial condition, credit history, and current economic conditions. Student loans receivable are written off when deemed uncollectible.

Property and Equipment

The Foundation capitalizes all additions, renewals, and betterments at cost whereas expenditures for maintenance and repairs are expensed as incurred.

Depreciation is provided in amounts sufficient to amortize the cost of the depreciable assets over their estimated service lives on accelerated and straight-line methods. The estimated useful lives by type of asset are as follows:

	<u>Years</u>
Office Furniture and Fixtures	3-7
Vehicles	5
Rental Property	27.5

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Donations of property and equipment are recorded as contributions of their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions.

Investments

Under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values using quoted market prices within an active market in the statement of financial position. Unrealized gains and losses are reported in the statement of activities as a change in unrestricted net assets.

Foundation pools their investments for greater flexibility in managing its investments. When investments are pooled, they lose their specific identification with specific contributions. Thus, the income and unrealized and realized gains and losses are allocated to the pool participants using the market value method. The market value method assigns a number of units to each pool participant based on the relationship of the individual investments to the total investments at the time the investments are pooled.

The Foundation follows the guidance of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in accounting for endowed assets. UPMIFA permits, subject to donor intent, appropriation for prudent expenditures as determined by the Foundation for the uses, benefits, purposes, and duration of the established endowment fund. The Foundation has determined that maintaining the historical endowed value is prudent for the use of the funds and any appreciation of the endowment is available for use. The amount of the net appreciation is reported as net assets released from restrictions in the statement of activities.

Net depreciation in donor-restricted endowment is reimbursed from unrestricted net assets as necessary to replenish the endowment fund to its historic dollar value as established by the Foundation.

Compensated Absences

Employees of the Foundation are entitled to paid vacation, paid sick, and paid personal time off. The Foundation estimates the amount of compensation for future compensated absences and, accordingly, recognizes the liability in the accompanying financial statements.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). There was no unrelated business income for 2008 or 2007.

2. CONCENTRATION OF CREDIT RISK

Financial instruments that are exposed to concentrations of credit risk consist of cash, unconditional promises to give, student loans receivable, and investments. The Foundation's cash and investments are in high quality institutions and companies with high credit ratings. The Foundation performs ongoing evaluations of outstanding credit balances and collectibility.

Cash and investments are based on quoted market prices. Unconditional promises to give and student loans are carried at estimated net realizable values.

3. INVESTMENTS

The Foundation's investments at December 31, 2008 consist of the following:

	Cost	Gross Unrealized Gain/(Loss)	Fair Market Value
Fixed Income Funds:			
MGA Cash Reserves, LLC	\$ 184,028	\$ 12,203	\$ 196,231
MGA Core Income, LLC	1,602,935	414,944	2,017,879
MGA Total Return, LLC	809,225	292,519	1,101,744
Equity Funds:			
MGA Diversified Core Equity, LLC	1,047,186	451,888	1,499,074
MGA Focused Core Equity	1,041,996	(186,916)	855,080
MGA Diversified Small/Mid Cap Equity, LLC	510,128	100,447	610,575
MGA Focused Small Cap Equity, LLC	513,565	(152,771)	360,794
MGA International Equity, LLC	399,583	256,845	656,428
	<u>\$ 6,108,646</u>	<u>\$ 1,189,159</u>	<u>\$ 7,297,805</u>

Investment expense which consists of management fees totaled \$26,114 in December 31, 2008.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

3. INVESTMENTS (Continued)

The fair value, historical dollar value, and net appreciation of endowed assets included in investments at December 31, are as follows:

	2008
Fair Value of Endowed Assets	\$ 4,995,502
Historical Dollar Value of Endowed Assets	(4,853,753)
Reclassifications for Endowment Balances	-
Net Appreciation - Endowed Assets	\$ 141,749

4. NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2008
The Foundation entered into a capital lease with the College, whereby the College leased the library holdings of the Foundation for 25 years, payable at \$1,000 per year, plus interest at 6%. The College has the option to purchase the library holdings at the end of the lease term for \$10.	\$ -
The Foundation entered into a capital lease with the College, whereby the College leased the Student Center Servery Remodel (the Remodel) for 8 years, payable at \$32,780 per year including interest at 6%. The College has the option to purchase the Remodel at the end of the lease term for \$10.	60,099
The Foundation entered into a purchase lease with the College, whereby the College leased the Al Wheeler Activity Center Renovation for 12 years, payable at \$25,871 per year including interest at 3.5%. The College has the option to purchase the Remodel at the end of the lease term for \$10.	232,879
Total Notes Receivable	292,978
Less Current Portion of Notes Receivable	46,894
	\$ 246,084

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

4. NOTES RECEIVABLE (Continued)

The aggregate maturities of notes receivable for the years ending after December 31, 2008 are as follows:

Years Ending December 31,			
2009	\$	46,895	
2010		49,265	
2011		18,982	
2012		19,647	
2013		20,334	
Thereafter		137,855	
	\$	292,978	

The fair value of notes receivable is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

5. REFUNDABLE DEPOSITS

Beginning in 2003, the Bobcat Athletic Association, Peru Booster Club, Peru Student Organization, and Farmer to Farmer Fund have entered into intermediary agreements with the Foundation. Funds are being held in cash by the Foundation as an agent of these organizations to be disbursed at their request. The funds are not owned by the Foundation. The funds provided by these organizations are not pooled with the Foundation's investments. The liability included in the accompanying statements of financial position represents the amount due to these entities totaling \$74,824 as of December 31, 2008.

6. GIFT ANNUITY

The Foundation has entered into agreements with donors in which the donor contributes cash to the Foundation in exchange for the distribution of fixed monthly amounts to the donor until the death of the donor. The gift annuity liability of \$216,100 as of December 31, 2008 represents the present value of the future cash flows expected to be paid to the donors. The annuities payable are discounted at 1.87% (7-year Treasury Bill rate at December 31, 2008) and are due in monthly or quarterly installments.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

6. GIFT ANNUITY (Continued)

The aggregate maturities of gift annuities for the years ending after December 31, 2008 are as follows:

Years Ending December 31,		
2009	\$	29,772
2010		33,155
2011		33,780
2012		34,418
2013		34,967
Thereafter		50,008
	\$	<u>216,100</u>

7. DEFERRED COMPENSATION

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

Additionally, the Foundation was required to increase the funded balance at a rate of 9.06% each year through fiscal year 2007 and 8% in 2008. The Foundation funded the deferred compensation account in 2008 and 2007 with investments totaling \$269,896 and \$273,098, respectively, which includes estimated earnings of \$24,713 and \$47,071, respectively. The Foundation's deferred compensation expense for the years ended December 31, 2008 and 2007, was \$37,521 and \$67,382, respectively.

8. NET ASSETS

Unrestricted board-designated net assets at December 31, are available for the following uses:

	2008
Designated for scholarship	\$ 58,283
Designated for work stipends	648,834
Designated for campus improvements	5,500
	<u>\$ 712,617</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

8. NET ASSETS (Continued)

Temporarily restricted net assets at December 31, are available for the following uses:

	<u>2008</u>
Designated for scholarship	\$ 1,302,382
Restricted for education department and athletic funds	<u>924,542</u>
	<u>\$ 2,226,924</u>

Permanently restricted net assets consist of endowment fund assets held indefinitely. The income from the assets is used for scholarships and to support the Foundation.

9. RELATED PARTY TRANSACTIONS

The Foundation incurs various expenses with the College throughout the year such as payroll reimbursements, gifts, and other various departmental expenses. The following is a summary of transactions with the College for the years ended December 31:

	<u>2008</u>
Salary and Wage Reimbursement	\$ 432,806
Gifts	63,703
Departmental Expense	<u>31,078</u>
Total	<u>\$ 527,587</u>

The Foundation owed the College for salary and wage expenses paid to its employees by the College in the amount of \$100,556 at December 31, 2008.

10. PENSION PLAN

The College sponsors a defined contribution retirement pension plan, Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), in which the Foundation's employees are allowed to participate. This plan covers all employees upon attaining 30 years of age and having two years of college service may participate voluntarily. Employee contributions are limited to 6% of gross salary. The College can contribute 8% of the employee's salary as a matching fund. The Foundation reimburses the College for the retirement fund contributions along with the salary reimbursements. The Foundation's contributions to the plan totaled \$20,240 for the year ended December 31, 2008.

11. CONCENTRATIONS

During 2008, the Foundation received approximately 79% of its contributions from five individuals and estates.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION

NOTE A - FOUNDATION

The Wayne State Foundation (the "Foundation") is an independent Foundation established for the purpose to operate as a charitable and educational foundation exclusively for the promotion and support of Wayne State College; to aid, assist and promote educational programs, faculty employees, and students, and to encourage the attendance of worthy and deserving students, and to grant scholarships and student loans to deserving students; to solicit and accept gifts, grants, devises and bequests of real or personal property, or both, and hold, administer, use, and dispose of the same, both principal and income, for the accomplishment and furtherance of any of the foregoing purposes; and to receive and hold in trust any property for the use or benefit of Wayne State College or any student, professor, employee, and college departments therein.

See Note S regarding joint venture with Northeast Community College.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Assets and liabilities are presented in the order of liquidity on the statement of financial position. Net assets, support and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the years ended June 30, 2008 and 2007, from which the summarized information was derived.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Pervasiveness of Estimates

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

Cash and Cash Equivalents

The Foundation considers checking accounts to be cash equivalents. Commonfund investments are not considered cash and cash equivalents.

Income Taxes

The Foundation qualifies as a tax-exempt Foundation, other than a private foundation, under Section 501(c)(3) of the Internal Revenue Code and therefore, has no provision for federal income taxes.

Investments

Investments are composed of mutual funds, debt and equity securities, realty fund limited liability company, certificates of deposits, and money market accounts and are carried at fair value.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments (cont'd)

The Foundation adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157 ("FAS 157"), "Fair Value Measurement," effective July 1, 2008. FAS 157 established a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1: quoted prices in active markets for identical investments.
- Level 2: other significant observable inputs (including quoted prices for similar investments in active markets, interest rates and yield curves, prepayment speeds, credit risks, etc.)
- Level 3: significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of investments)

The following is a summary of the inputs used as of June 30, 2009 in valuing the Foundation's investments:

Level 1	Level 2	Level 3	Total
\$1,295,585	\$11,293,431	\$297,752	\$12,886,768

The Foundation did not hold other financial instruments as of June 30, 2009.

At June 30, 2009, the Foundation had a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining values as shown below:

Balance as of 6/30/2008	\$	770,155
Change in unrealized appreciation (depreciation)		(451,732)
Investment income (loss)		(20,671)
Balance as of 6/30/2009	\$	297,752
Net change in unrealized appreciation/depreciation	\$	(451,732)

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Real Estate

Donations of property are recorded as support and carried at their estimated fair value at the date of the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose.

Credit Risk Arising from Cash Deposits

At times the Foundation may have uninsured bank deposits. At June 30, 2009, the Foundation had bank deposits of \$2,468,262 of which \$3,607 was uninsured.

Market Risk from Concentration of Investments with Advisor

At June 30, 2009 the Foundation had cash equivalents and investments (including reserved for annuities) with Commonfund of \$9,311,824, which represents approximately 75% of cash and investments.

Subsequent Events

In the normal course of preparing the Foundation's financial statements, management reviews events that occur after the statement of financial position date (June 30, 2009) for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through September 25, 2009, which is the date the financial statements were available to be issued.

NOTE C - LAND AND BUILDINGS

Depreciation is computed using the straight-line method over the estimated useful life of the respective asset. The basis of valuation of the asset is appraisal value at the time of donation.

	Bressler Alumni House	1308 Main	Total
Land	\$ 20,000	\$ 39,500	\$ 59,500
Building	120,000	81,000	201,000
Subtotal	140,000	120,500	260,500
Accumulated Depreciation	(38,000)	(5,000)	(43,000)
Net 6-30-09	\$ 102,000	\$ 115,500	\$ 217,500
Depreciation Exp. FYE 6-09	\$ 3,000	\$ 2,500	\$ 5,500

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE D - PROMISES TO GIVE

Unconditional Promises

Unconditional promises are recorded at their net realizable value.

Unconditional promises to give at June 30, 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unconditional				
Promises to give	\$ -	\$ 1,738,418	\$ 84,142	\$1,822,560
Less discount to				
Present value	-	(169,747)	(7,765)	(177,512)
Less allowance for				
uncollectible prom.	-	(21,686)	-	(21,686)
Net unconditional				
Promises to give	<u>\$ -</u>	<u>\$ 1,546,985</u>	<u>\$ 76,377</u>	<u>\$1,623,362</u>

Unconditional promises consist of the following:

Due 6/30/2009	\$ 90,143
6/30/2010	610,523
6/30/2011	362,390
6/30/2012	281,330
6/30/2013	221,625
6/30/2014	12,188
More than 5 years	
6/30/2015-2028	45,163
	<u>\$ 1,623,362</u>

The Foundation had a conditional promise of \$500,000 at June 30, 2009, representing a challenge grant from a foundation to partially fund the expansion, renovation and improvement of the Carhart Science Building. Revenue will be recognized when the conditions are met.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE E - INVESTMENTS

The Foundation's investments are composed of money market accounts, certificates of deposits, and mutual funds including common trust funds, either at area financial institutions or investment brokerage firms. Investments are stated at fair market value. Fluctuations in fair values are reflected in the period they occur. Certain funds have been pooled for ease of management and to achieve greater diversification in investments. Investments as of June 30, 2009 are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Money markets	\$ -	\$ 600,599	\$ 125,306	\$ 725,905
Certificates of Deposits	45,361	1,467,476	571,378	2,084,214
Commonfund- Real Estate Fund	-	-	297,752	297,752
Commonfund- Equity Fund	\$ 611,470	-	4,855,217	5,466,688
Commonfund- Bond Fund	396,940	-	2,479,606	2,876,547
Subtotal Commonfund	<u>1,008,411</u>	<u>-</u>	<u>7,632,576</u>	<u>8,640,987</u>
Other Securities	<u>-</u>	<u>37,283</u>	<u>54,174</u>	<u>91,457</u>
Totals	<u>\$ 1,053,711</u>	<u>\$ 2,105,357</u>	<u>\$ 8,383,434</u>	<u>\$ 11,542,562</u>

Investment management fees have been deducted from investment income.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment Management Fees	\$ 4,128	\$ 46,157	\$ 7,152	\$ 57,437

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE F - LIFE INSURANCE - CASH VALUE

The Foundation is the owner of numerous whole life insurance policies with various insurance companies. The policies contain cash values, which are summarized as follows:

	<u>Policy Amount</u>	<u>6/30/09 Cash Value</u>
Unrestricted	\$ 533,986	\$ 173,077
Temporarily Restricted	37,500	3,441
Permanently Restricted	<u>23,059</u>	<u>7,977</u>
Totals	<u>\$ 594,545</u>	<u>\$ 184,495</u>

NOTE G - ASSETS HELD IN PERPETUAL TRUST

The Foundation is the beneficiary of a perpetual trust. First National Bank - Omaha is the trustee. At June 30, 2009, the fair market value of the trust consisted of Cash equivalents \$53,813, Bonds and notes \$248,607 and Equities \$370,948. The trustee may be changed only due to investment performance.

NOTE H - ANNUITY CONTRACTS

The Foundation has entered into several annuity agreements whereby the donor transfers either cash, property, or both and, in consideration, the Foundation agrees to pay the donor a stated dollar amount annually for the remainder of his/her life, at which time the remaining assets are available for their unrestricted (or restricted if so designated by the donor) use by the Foundation. The Foundation records the assets at fair value when received, the liability is recorded at the present value of expected future cash flows to be paid to the annuitant with the difference recorded as an unrestricted or restricted contribution. The liabilities are computed using discount rates varying from 2.4% to 9.6% and life expectancies of annuity beneficiaries based on IRS tables.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE H - ANNUITY CONTRACTS (cont'd)

Annuity assets as of June 30, 2009, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Commonfund- Equity Fund	\$ 120,175	\$ 323,621	\$ 443,796
Commonfund- Bond Fund	62,414	164,627	227,041
Total	\$ 182,589	\$ 488,249	\$ 670,838
Annuities Payable	\$ 123,769	\$ 359,872	\$ 483,641

NOTE I - UNRESTRICTED NET ASSETS

The Board has designated a portion of unrestricted net assets as follows:

Board Designated:	
Quasi-Endowment	\$ 164,719
Total board designated	\$ 164,719

These amounts are held in investments.

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2009:

Program Activities:	
Scholarships and Grants	\$ 220,411
Improvements	1,854,073
College Departments	245,915
SSC College Center (see Note S)	1,072,427
Time Only Restriction (Unrestricted receivables)	459,614
Other Designated Programs	77,786
Total Temporarily Restricted Net Assets	\$ 3,930,227

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE K - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are endowment funds restricted in perpetuity to provide funding for various scholarships and programs annually. In addition permanently restricted net assets include assets being held to fund future endowments.

NOTE L - INTERFUND RECEIVABLES

At June 30, 2009 the Foundation had the following interfund receivables:

Unrestricted due to Permanently Restricted	\$ (1,262,674)
Unrestricted due to Temporarily Restricted	(1,390)
Temporarily Restricted due from Unrestricted	1,390
Temporarily Restricted due from Permanently Restricted	139,566
Permanently Restricted due from Temporarily Restricted	(139,566)
Permanently Restricted due from Unrestricted	1,262,674
Total	<u>\$ -</u>

NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE N - CONTRIBUTED SERVICES

The Foundation receives donated accounting services, secretarial services and rent from Wayne State College. The estimated fair value for these services are \$134,977 for the year ended June 30, 2009. The amount has been recognized in the financial statements.

NOTE O - PENSION PLAN

The Foundation contributes to a defined contribution retirement plan and is required to contribute 8% of the employee's salary. The Foundation's contributions to the retirement plan were \$17,479 for the year ended June 30, 2009.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE P - VACATION, SICK PAY, AND OTHER EMPLOYEE BENEFIT AMOUNTS

The cost of vacation pay, sick pay, and other employee benefits are recorded when disbursed and not accrued. These are not expected to exceed a normal year's accumulation.

NOTE Q - COLLECTIONS

The collections, which were acquired through purchases and contributions since the Foundation's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

NOTE R - RELATED PARTIES

For the year ended June 30, 2009 the Foundation made payments to Wayne State College of \$1,950,919 consisting of \$1,069,071 scholarships, stipends, and tuition assistance \$517,153 for capital improvements for the Rice Stadium Athletic Facilities and Commons, \$81,598 for Athletics programs budget transfers and programs, \$1,937 for grant funding, \$276,866 for staff salaries, and \$4,294 for other expenses.

NOTE S - SSC COLLEGE CENTER

Wayne State College and Northeast Community College have entered into a partnership to provide access to affordable, comprehensive programs for associate, bachelor and master's degrees in South Sioux City, NE. To facilitate these educational offerings, they are in the process of designing a building, which will be referred to as the College Center at South Sioux City. The approximate 40,000 sq. ft. building will cost an estimated \$10.5 million and will be funded jointly by the two Colleges. The City of South Sioux City donated 57 acres, valued at \$2.1 million, to the project. Construction is tentatively scheduled for December 2010. To supplement the state funding, a private fund raising campaign is in progress to secure \$2.0 million. The Wayne State Foundation is the custodian for this campaign.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE S - SSC COLLEGE CENTER (cont'd)

Contribution revenue for the fiscal year for the College Center included \$109,469 of outright gifts and \$451,500 of pledges. The pledges were discounted \$31,231 for net contribution revenue of \$529,739. Pledges receivable at June 30, 2009 included in the temporarily restricted balance, amounted to \$766,550 with a net present value of \$701,128.

NOTE T - ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 275 individual funds established for a variety of purposes. Its endowment includes both donor restricted funds and funds designated by the Executive Committee to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds including funds designated by the Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee of the Foundation has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence described by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE T - ENDOWMENT FUNDS (cont'd)

Endowment Net Asset Composition by Type of Fund as June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,262,674)	\$ 54,406	\$ 9,540,261	\$ 8,331,993
Board-designated endowment funds	164,719	-	-	164,719
 Total Funds	 <u>\$ (1,097,956)</u>	 <u>\$ 54,406</u>	 <u>\$ 9,540,261</u>	 <u>\$ 8,496,712</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 203,362	\$ 1,128,042	\$ 8,636,810	\$ 9,968,214
Contributions	-	-	903,451	903,451
Net investment income	4,381	160,324	-	164,705
Net appreciation (depreciation)	(1,153,832)	(1,095,015)	-	(2,248,847)
Amounts appropriated for expenditure	(151,866)	(138,945)	-	(290,811)
 Endowment net assets, end of year	 <u>\$ (1,097,956)</u>	 <u>\$ 54,406</u>	 9,540,261	 <u>\$ 8,496,712</u>

Other permanently restricted net assets:

Interest in Robert Cunningham Perpetual Trust	673,368
Cash Value of Life Insurance to Fund	
Permanently Restricted Endowment Funds	7,977
Charitable Gift Annuity Net Assets to Fund Permanently Restricted Endowments at a Future Date	123,970
Promises to Fund Permanently Restricted Endowment Funds	<u>76,377</u>
Total Permanently Restricted Net Assets	<u>\$ 10,421,953</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE T - ENDOWMENT FUNDS (cont'd)

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,262,674 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Executive Committee of the Foundation.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment spending policies, approved by the Executive Committee, for endowment assets that provide a predictable stream of funding to programs supported by its endowment funds while also attempting to maintain the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve a net total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes debt, equity and real estate securities, that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 3 years through June 30th of the preceding fiscal year in which the distribution is planned. In scenarios where the fair value of the endowment funds have fallen below the permanently restricted balances or if undistributed prior period earnings appear insufficient, the Foundation may, at its discretion set a lower payout rate which appears in line with the current yield from investment and general economic conditions. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effects of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET ASSETS
June 30, 2009

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,612,827	\$ 4,190,168	\$ 12,332,098	\$ 6,307	\$ 19,141,400
Restricted cash and cash equivalents	625,518	1,032,450	940,668	7,671,216	10,269,852
Investments held by trustee	-	-	-	1,369,997	1,369,997
Accounts receivable, net of allowance	304,751	236,364	184,080	-	725,195
State grants and appropriations receivable	492,265	741,432	710,690	4,205,288	6,149,675
Other receivables	160,550	39,467	-	30	200,047
Inventories	31,465	45,792	64,440	-	141,697
Loans to students, net	211,704	-	200,491	-	412,195
Prepaid expenses	177,214	51,653	54,409	3,101	286,377
Deposits with vendors	-	-	1,660	17,242	18,902
Total current assets	<u>4,616,294</u>	<u>6,337,326</u>	<u>14,488,536</u>	<u>13,273,181</u>	<u>38,715,337</u>
Noncurrent Assets					
Restricted cash and cash equivalents	3,248,855	1,790,113	5,009,265	21,000	10,069,233
Restricted investments held by trustee	-	-	-	255,742	255,742
Investment income receivable	-	3,581	-	-	3,581
Loans to students, net	1,091,153	-	1,145,744	-	2,236,897
Capital assets, net	34,810,191	34,110,665	57,025,084	3,906,065	129,852,005
Deferred bond issue costs, net	128,791	25,119	72,720	403,131	629,761
Total noncurrent assets	<u>39,278,990</u>	<u>35,929,478</u>	<u>63,252,813</u>	<u>4,585,938</u>	<u>143,047,219</u>
Total assets	<u>43,895,284</u>	<u>42,266,804</u>	<u>77,741,349</u>	<u>17,859,119</u>	<u>181,762,556</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities	1,973,762	852,651	2,526,913	1,462,089	6,815,415
Accrued compensated absences	137,439	47,691	292,970	10,367	488,467
Other liabilities	142,554	18,994	-	-	161,548
Deferred revenue	201,587	32,656	138,504	-	372,747
Interest payable	134,382	74,663	187,616	432,424	829,085
Long-term debt - current portion	340,000	128,340	360,000	2,265,000	3,093,340
Deposits held in custody for others	137,697	110,426	137,864	-	385,987
Total current liabilities	<u>3,067,421</u>	<u>1,265,421</u>	<u>3,643,867</u>	<u>4,169,880</u>	<u>12,146,589</u>
Noncurrent Liabilities					
Accrued compensated absences	748,450	438,389	1,375,258	137,727	2,699,824
Unamortized bond premium	-	-	-	234,329	234,329
Other noncurrent liabilities	404,639	40,316	-	-	444,955
Long-term debt	5,475,000	3,186,819	7,960,000	19,985,000	36,606,819
Total noncurrent liabilities	<u>6,628,089</u>	<u>3,665,524</u>	<u>9,335,258</u>	<u>20,357,056</u>	<u>39,985,927</u>
Total liabilities	<u>9,695,510</u>	<u>4,930,945</u>	<u>12,979,125</u>	<u>24,526,936</u>	<u>52,132,516</u>
Net Assets					
Invested in capital assets, net of related debt	29,123,982	30,761,315	48,777,804	(18,172,763)	90,490,338
Restricted for					
Expendable					
Loans	1,329,399	336,369	1,421,628	-	3,087,396
Debt service	1,976,289	1,743,862	4,722,643	2,377,476	10,820,270
Plant	-	-	-	2,195,273	2,195,273
Other	527,266	465,117	437,363	8,439,244	9,868,990
Unrestricted	1,242,838	4,029,196	9,402,786	(1,507,047)	13,167,773
Total net assets	<u>\$ 34,199,774</u>	<u>\$ 37,335,859</u>	<u>\$ 64,762,224</u>	<u>\$ (6,667,817)</u>	<u>\$ 129,630,040</u>

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Year Ended June 30, 2009

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Revenues					
Tuition and fees, net	\$ 5,193,152	\$ 4,480,191	\$ 10,106,142	\$ -	\$ 19,779,485
Federal grants and contracts	3,906,362	2,296,988	4,167,946	-	10,371,296
State grants and contracts	285,342	277,498	506,296	-	1,069,136
Private grants and contracts	626,335	369,834	409,006	-	1,405,175
Auxiliary enterprises, net	5,013,876	1,608,719	6,197,523	-	12,820,118
Other operating revenues	27,064	244,581	137,001	-	408,646
	<u>15,052,131</u>	<u>9,277,811</u>	<u>21,523,914</u>	<u>-</u>	<u>45,853,856</u>
Operating Expenses					
Compensation and benefits	18,534,663	10,911,226	26,018,195	1,027,630	56,491,714
Contractual services	1,403,355	543,453	1,856,532	37,094	3,840,434
Supplies and materials	3,285,253	915,877	1,491,603	-	5,692,733
Scholarships and fellowships	292,682	155,260	458,712	-	906,654
Depreciation/Amortization	1,539,410	1,012,362	2,053,768	119,451	4,724,991
Utilities	1,310,832	855,098	1,969,286	-	4,135,216
Repairs and maintenance	574,514	486,956	564,979	-	1,626,449
Communications	263,278	248,091	409,520	-	920,889
Food service	1,513,135	888,837	1,987,176	-	4,389,148
Other	1,664,125	1,488,882	2,793,187	389,582	6,335,776
	<u>30,381,247</u>	<u>17,506,042</u>	<u>39,602,958</u>	<u>1,573,757</u>	<u>89,064,004</u>
Operating Loss	<u>(15,329,116)</u>	<u>(8,228,231)</u>	<u>(18,079,044)</u>	<u>(1,573,757)</u>	<u>(43,210,148)</u>
Nonoperating Revenue (Expenses)					
State appropriations	15,745,586	9,055,750	19,790,014	1,071,197	45,662,547
Capital Outlay	-	-	-	(1,480,263)	(1,480,263)
Investment income	267,851	298,444	677,448	235,775	1,479,518
Interest on capital asset-related debt	(288,988)	(143,204)	(380,683)	(1,031,437)	(1,844,312)
Other nonoperating revenue (expense)	(8,787)	(199,325)	(22,440)	(30,541)	(261,093)
	<u>15,715,662</u>	<u>9,011,665</u>	<u>20,064,339</u>	<u>(1,235,269)</u>	<u>43,556,397</u>
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	386,546	783,434	1,985,295	(2,809,026)	346,249
Capital Facilities Fees	-	-	-	1,853,306	1,853,306
Capital Contributions	-	-	861,547	1,793,149	2,654,696
Operating Transfers In (Out)	1,668,914	605,336	1,978,471	(4,252,721)	-
Capital Appropriations and Grants	839,051	525,702	2,036,224	3,813,483	7,214,460
Increase in Net Assets	2,894,511	1,914,472	6,861,537	398,191	12,068,711
Net Assets, Beginning of Year	31,305,263	35,421,387	57,900,687	(7,066,008)	117,561,329
Net Assets, End of Year	<u>\$ 34,199,774</u>	<u>\$ 37,335,859</u>	<u>\$ 64,762,224</u>	<u>\$ (6,667,817)</u>	<u>\$ 129,630,040</u>

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2009

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Activities					
Tuition and fees	\$ 5,154,716	\$ 4,467,848	\$ 10,163,500	\$ -	\$ 19,786,064
Grants and contracts	4,818,039	2,944,320	5,083,248	-	12,845,607
Payments to suppliers	(9,473,351)	(5,098,242)	(8,952,177)	(401,829)	(23,925,599)
Payments for utilities	(1,303,287)	(855,098)	(2,115,327)	-	(4,273,712)
Payments to employees	(18,555,454)	(10,838,245)	(25,527,581)	(979,030)	(55,900,310)
Loans issued to students	(244,266)	-	(196,718)	-	(440,984)
Collections of loans to students	174,447	(18)	207,275	-	381,704
Sales and services of auxiliary enterprises	4,996,585	1,634,423	6,190,515	-	12,821,523
Other receipts (payments)	27,064	244,581	(321,711)	(37,094)	(87,160)
Net cash used in operating activities	<u>(14,405,507)</u>	<u>(7,500,431)</u>	<u>(15,468,976)</u>	<u>(1,417,953)</u>	<u>(38,792,867)</u>
Noncapital Financing Activities					
State appropriations	15,254,541	8,878,922	19,253,036	2,460,724	45,847,223
Grants and contracts	-	32,696	42,651	-	75,347
Other receipts (payments)	(8,787)	(241,585)	-	(30,541)	(280,913)
Net cash provided by noncapital financing activities	<u>15,245,754</u>	<u>8,670,033</u>	<u>19,295,687</u>	<u>2,430,183</u>	<u>45,641,657</u>
Capital and Related Financing Activities					
Receipt from State for capital purchases	-	-	-	3,813,483	3,813,483
Capital Contributions	-	-	861,547	1,793,149	2,654,696
Purchase of capital assets	(3,354,467)	(2,637,202)	(5,771,660)	(4,073,302)	(15,836,631)
Principal Paid on capital debt	(320,000)	(123,341)	(350,000)	(4,320,000)	(5,113,341)
Interest paid on capital debt	(279,555)	(143,674)	(386,113)	(1,148,373)	(1,957,715)
Capital Facilities Fees	-	-	-	1,848,555	1,848,555
Transfers In(Out)	1,668,914	605,336	1,978,471	(5,081,222)	(828,501)
Other	2,664	42,260	-	50,821	95,745
Capital Appropriations	839,051	525,702	2,036,224	-	3,400,977
Net cash provided by capital and related financing activities	<u>(1,443,393)</u>	<u>(1,730,919)</u>	<u>(1,631,531)</u>	<u>(7,116,889)</u>	<u>(11,922,732)</u>
Investing Activities					
Purchase/sale of investments	309,670	233,521	593,956	(563,948)	573,199
Investment income	267,851	298,444	677,448	259,683	1,503,426
Net cash provided by investing activities	<u>577,521</u>	<u>531,965</u>	<u>1,271,404</u>	<u>(304,265)</u>	<u>2,076,625</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(25,625)</u>	<u>(29,352)</u>	<u>3,466,584</u>	<u>(6,408,924)</u>	<u>(2,997,317)</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,512,825</u>	<u>7,042,083</u>	<u>14,815,447</u>	<u>14,107,447</u>	<u>42,477,802</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,487,200</u>	<u>\$ 7,012,731</u>	<u>\$ 18,282,031</u>	<u>\$ 7,698,523</u>	<u>\$ 39,480,485</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and cash equivalents	\$ 2,612,827	\$ 4,190,168	\$ 12,332,098	\$ 6,307	\$ 19,141,400
Restricted cash and cash equivalents - current	625,518	1,032,450	940,668	7,671,216	10,269,852
Restricted cash and cash equivalents - noncurrent	3,248,855	1,790,113	5,009,265	21,000	10,069,233
Total cash and cash equivalents	<u>\$ 6,487,200</u>	<u>\$ 7,012,731</u>	<u>\$ 18,282,031</u>	<u>\$ 7,698,523</u>	<u>\$ 39,480,485</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2009

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Reconciliation of Net Operating Revenues (Expenses)					
to Net Cash Used in Operating Activities					
Operating loss	\$(15,329,116)	\$ (8,228,231)	\$(18,079,044)	\$ (1,573,757)	\$(43,210,148)
Depreciation/Amortization expense	1,539,410	1,012,362	2,053,768	119,451	4,724,991
Changes in operating assets and liabilities					
Receivables, net	(31,289)	(12,421)	3,339	-	(40,371)
Inventories	(2,227)	(7,040)	18,027	-	8,760
Prepays and other	-	-	-	(19,248)	(19,248)
Accounts payable and accrued liabilities	(428,786)	(340,105)	(15,602)	7,001	(777,492)
Accrued compensated absences	25,534	57,162	490,614	48,600	621,910
Other assets and liabilities	(179,033)	17,842	59,922	-	(101,269)
Net Cash Used in Operating Activities	<u><u>\$(14,405,507)</u></u>	<u><u>\$ (7,500,431)</u></u>	<u><u>\$(15,468,976)</u></u>	<u><u>\$ (1,417,953)</u></u>	<u><u>\$(38,792,867)</u></u>
Supplemental Cash Flows Information					
Accounts payable incurred for capital asset purchases	\$ 506,135	\$ 55,071	\$ 874,546	\$ 1,432,477	\$ 2,868,229

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2009 Expenditures
<i>U.S. Department of Education:</i>			
Student Financial Aid Cluster:			
Federal Supplemental Educational Opportunity Grant		84.007	\$ 165,688
Federal Family Education Loans		84.032	20,159,671
Federal Work-Study Program		84.033	527,230
Federal Perkins Loan Program - Federal Capital Contributions		84.038	3,188,494
Federal Pell Grant Program		84.063	7,330,571
Federal Direct Student Loans		84.268	6,003,117
Academic Competitiveness Grants		84.375	288,248
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	<u>117,599</u>
Total Student Financial Aid Cluster			37,780,618
Trio - Student Support Services		84.042	754,303
Trio - Upward Bound		84.047	245,655
Leveraging Educational Assistance Partnership	Coordinating Commission for Postsecondary Education (CCPE)	84.069	36,842
Bilingual Education - Professional Development	University of Nebraska- Lincoln (UNL)	84.195	85,891
Improving Teacher Quality State Grants	CCPE	84.367	13,818
College Access Challenge Grant Program	CCPE	84.378	<u>8,756</u>
<i>Total U.S. Department of Education</i>			<u><u>\$ 38,925,883</u></u>
<i>U.S. Department of Agriculture:</i>			
Higher Education Challenge Grants	Nebraska National Forest	10.217	<u><u>\$ 4,848</u></u>
<i>U.S. Department of Interior:</i>			
State Wildlife Grants	Nebraska Game & Parks	15.634	\$ 30,275
U.S. Geological Survey - Research & Data Collection		15.808	<u>30,357</u>
<i>Total U.S. Department of Interior</i>			<u><u>\$ 60,632</u></u>
<i>Department of Transportation:</i>			
Highway Planning and Construction	Nebraska Statewide Arboretum	20.205	<u><u>\$ (221)</u></u>
<i>National Science Foundation:</i>			
Biological Sciences	National Science Foun- dation Academy of Natural Sciences of Philadelphia	47.074	\$ 33,055

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2009 Expenditures
Social, Behavioral, and Economic Sciences Education & Human Resources	UNL University of Nebraska- Omaha (UNO)	47.075 47.076	26,708 3,202
<i>Total National Science Foundation</i>			<u>\$ 62,965</u>
<i>National Endowment for the Humanities:</i>			
Promotion of the Humanities - Public Programs		45.164	<u>\$ 992</u>
<i>U.S. Small Business Administration:</i>			
Small Business Development Centers	UNO	59.037	<u>\$ 95,503</u>
<i>U.S. Department of Health & Human Services:</i>			
Center for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska Health & Human Services	93.283	\$ 16,815
National Center for Research Resources	University of Nebraska Medical Center (UNMC)	93.389	125,896
Block Grants for Prevention and Treatment of Substance Abuse		93.959	12,906
<i>Total U.S. Department of Health & Human Services</i>			<u>\$ 155,617</u>
<i>Corporation for National & Community Service:</i>			
Learn & Serve America - School & Community Based Programs	UNL	94.004	\$ 8,030
Learn & Serve America - Higher Education	UNL	94.005	16,127
<i>Total Corporation for National & Community Service</i>			<u>\$ 24,157</u>
Total Federal Awards			<u>\$ 39,330,376</u>

See Notes to Schedule of Expenditures of Federal Awards

(Concluded)

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2009

- Note 1:** This schedule includes the Federal awards activity of the Nebraska State College System (NSCS) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2:** The NSCS did not provide Federal awards to subrecipients.
- Note 3:** Major programs were determined in accordance with OMB Circular A-133. The Student Financial Aid Cluster was considered the major program for the NSCS.
- Note 4:** The NSCS administers the Perkins Loan Program for which the Federal government imposes continuing compliance requirements (other than repayment of the loan). In accordance with OMB Circular A-133, expenditures for the Perkins Loan Program includes the balance of loans from previous years of \$2,793,257, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received. The Perkins Loan balance for the NSCS for the fiscal year ended June 30, 2009, was \$2,856,959.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2009 Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid Cluster:						
Federal Supplemental Educational Opportunity Grant		84.007	\$ 71,085	\$ 36,234	\$ 58,369	\$ 165,688
Federal Family Education Loans		84.032	12,616,764	6,898,594	644,313	20,159,671
Federal Work-Study Program		84.033	125,933	100,451	300,846	527,230
Federal Perkins Loan Program - Federal Capital Contributions		84.038	1,651,602	-	1,536,892	3,188,494
Federal Pell Grant Program		84.063	3,162,474	1,857,388	2,310,709	7,330,571
Federal Direct Student Loans		84.268	-	396,970	5,606,147	6,003,117
Academic Competitiveness Grants		84.375	138,421	60,863	88,964	288,248
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	38,103	12,000	67,496	117,599
Total Student Financial Aid Cluster			17,804,382	9,362,500	10,613,736	37,780,618
Trio - Student Support Services		84.042	275,856	251,331	227,116	754,303
Trio - Upward Bound		84.047	-	-	245,655	245,655
Leveraging Educational Assistance Partnership	CCPE	84.069	17,644	7,732	11,466	36,842
Bilingual Education - Professional Development	UNL	84.195	85,891	-	-	85,891
Improving Teacher Quality State Grants	CCPE	84.367	13,818	-	-	13,818
College Access Challenge Grant Program	CCPE	84.378	-	-	8,756	8,756
<i>Total U.S. Department of Education</i>			<u>\$ 18,197,591</u>	<u>\$ 9,621,563</u>	<u>\$ 11,106,729</u>	<u>\$ 38,925,883</u>
<i>U.S. Department of Agriculture:</i>						
Higher Education Challenge Grants	Nebraska National Forest	10.217	\$ -	\$ -	\$ 4,848	\$ 4,848
<i>U.S. Department of Interior:</i>						
State Wildlife Grants	Nebraska Game & Parks	15.634	\$ -	\$ -	\$ 30,275	\$ 30,275
U.S. Geological Survey - Research & Data Collection		15.808	-	-	30,357	30,357
<i>Total U.S. Department of Interior</i>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,632</u>	<u>\$ 60,632</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2009 Expenditures
<i>Department of Transportation:</i>						
Highway Planning and Construction	Nebraska Statewide Arboretum	20.205	\$ (221)	\$ -	\$ -	\$ (221)
<i>National Science Foundation:</i>						
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	\$ 6,053	\$ 27,002	\$ -	\$ 33,055
Social, Behavioral, and Economic Sciences	UNL	47.075	26,708	-	-	26,708
Education & Human Resources	UNO	47.076	-	-	3,202	3,202
<i>Total National Science Foundation</i>			<u>\$ 32,761</u>	<u>\$ 27,002</u>	<u>\$ 3,202</u>	<u>\$ 62,965</u>
<i>National Endowment for the Humanities:</i>						
Promotion of the Humanities - Public Programs		45.164	\$ -	\$ -	\$ 992	\$ 992
<i>U.S. Small Business Administration:</i>						
Small Business Development Centers	UNO	59.037	\$ 62,930	\$ -	\$ 32,573	\$ 95,503
<i>U.S. Department of Health & Human Services:</i>						
Center for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska Health & Human Services	93.283	\$ -	\$ -	\$ 16,815	\$ 16,815
National Center for Research Resources	UNMC	93.389	118,451	-	7,445	125,896
Block Grants for Prevention and Treatment of Substance Abuse		93.959	12,906	-	-	12,906
<i>Total U.S. Department of Health & Human Services</i>			<u>\$ 131,357</u>	<u>\$ -</u>	<u>\$ 24,260</u>	<u>\$ 155,617</u>
<i>Corporation for National & Community Service:</i>						
Learn & Serve America - School & Community Based Programs	UNL	94.004	\$ -	\$ -	\$ 8,030	\$ 8,030
Learn & Serve America - Higher Education	UNL	94.005	16,127	-	-	16,127
<i>Total Corporation for National & Community Service</i>			<u>\$ 16,127</u>	<u>\$ -</u>	<u>\$ 8,030</u>	<u>\$ 24,157</u>
Total Federal Awards			<u>\$ 18,440,545</u>	<u>\$ 9,648,565</u>	<u>\$ 11,241,266</u>	<u>\$ 39,330,376</u>

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

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

We have audited the accompanying financial statements of the business-type activities and discreetly presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2009, which collectively comprise the Nebraska State College System's basic financial statements and have issued our report thereon dated. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Nebraska State College Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation, as described in our report on the Nebraska State College System's financial statements. The financial statements of the Nebraska State College Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska State College System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nebraska State College System's financial statements that is more than inconsequential will not be prevented or detected by the Nebraska State College System's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

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

Signed Original on File

Lincoln, Nebraska
December 21, 2009

Don Dunlap, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

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

Compliance

We have audited the compliance of the Nebraska State College System (NSCS), a component unit of the State of Nebraska, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. We did not audit compliance with the above requirements, if applicable, for Chadron State, Peru State, and Wayne State Foundations, discretely presented component units of the Nebraska State College System. We also did not audit compliance with the above requirements, if applicable, for the Revenue and Refunding Bond Funds and Facilities Corporation. The Nebraska State College System's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the Nebraska State College System's management. Our responsibility is to express an opinion on the Nebraska State College System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the NSCS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the NSCS's compliance with those requirements.

In our opinion, the Nebraska State College System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

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

Compliance with Federal Perkins Loan program requirements governing reporting and program performance (due diligence and loan repayment) are the shared responsibility of the Nebraska State College System and Affiliated Computer Services, Inc. (ACS) and University Accounting Service (UAS) service organizations. Internal control over compliance relating to such functions performed by ACS and UAS were reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Services*. Copies of the service organizations accountants' reports have been furnished to us. However, the scope of our work did not extend to internal control maintained at ACS and UAS.

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

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

Our consideration of internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Nebraska State College System, the Board of Trustees, others within the Nebraska State College System, and the appropriate Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Lincoln, Nebraska
December 21, 2009

Don Dunlap, CPA
Assistant Deputy Auditor

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2009

I. Summary of Auditor's Results:

- a. Type of report issued as it related to the Nebraska State College System's (NSCS) basic financial statements: Unqualified.
- b. No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- c. The audit disclosed no instances of noncompliance which were material to the NSCS's basic financial statements.
- d. No significant deficiencies in internal control over the major program were disclosed by the audit.
- e. Type of report issued on compliance for major program: Unqualified.
- f. The audit disclosed no audit findings, which are required to be reported in accordance with section 510(a) of OMB Circular A-133.
- g. The Student Financial Aid Cluster is considered a major program. The Student Financial Aid Cluster consists of the following:
 - CFDA #84.007 Federal Supplemental Educational Opportunity Grant
 - CFDA #84.032 Federal Family Education Loan
 - CFDA #84.033 Federal Work Study Program
 - CFDA #84.038 Federal Perkins Loan Program
 - CFDA #84.063 Federal Pell Grant Program
 - CFDA #84.268 Federal Direct Student Loans (Direct Loan)
 - CFDA #84.375 Academic Competitiveness Grants
 - CFDA #84.376 National Science and Mathematics Access to Retain Talent (SMART) Grants
- h. The threshold used to distinguish between Type A and Type B programs: \$1,179,911
- i. The NSCS qualified as a low-risk auditee under OMB Circular A-133 Section 530.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Fiscal Year Ended June 30, 2009

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

None

III. Findings and Questioned Costs Relating to Federal Awards:

None

IV. Summary Schedule of Prior Year Audit Findings:

(Continued on Next Page)

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(Continued)

Finding Number	Catalog Number	Grant/Finding	NSCS Response Status of Finding	Auditor Comments/ Current Finding
08-01	Various	IT Segregation of Duties	Corrective Action Plan is in progress. The Colleges are at varying stages of implementing two new software systems. For financial, payroll, and human resources components, the Colleges migrated to the University of Nebraska's SAP system July 1, 2009. For student information components, the Nebraska State College System made a joint purchase of new software in partnership with the University of Nebraska and while certain student information components have currently been implemented, complete implementation is not scheduled to occur until fiscal year 2011. In both cases, database management functions will be performed at the University of Nebraska. Once these implementations are complete, any issues regarding the College's IT segregation of duties should be resolved.	No current finding