

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

JULY 1, 2011 THROUGH JUNE 30, 2012

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Issued on December 21, 2012

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

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NEBRASKA STATE COLLEGE SYSTEM (A COMPONENT UNIT 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, 2012, 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 the Chadron State, Peru State, and Wayne State Foundations (Foundations), discretely presented component units of the NSCS, as of June 30, 2012, December 31, 2011, and June 30, 2012, respectively, and the related Statements of Activities and Cash Flows for the years then ended. Those statements are presented separately on pages 14 through 16, 19 through 21, and 24 through 26. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State Colleges Facilities Corporation, a blended component unit of the Nebraska State College System, as of June 30, 2012. The Revenue and Refunding Bond Fund and Facilities Corporation represent 11%, 83%, and 18%, 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 auditors whose reports thereon 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 Colleges Facilities Corporation is based 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 that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to previously 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, 2012, and December 31, 2011 (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, 2012, on our consideration of the Nebraska State College System's internal control over financial reporting and on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Combining Schedules are presented for purposes of additional analysis and are not a required part of the

basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying Combining Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the accompanying Combining Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska
December 21, 2012

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, 2012. 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.

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, 2012, 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 are those authorized under 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 Governmental Accounting Standards Board (GASB) Statement No. 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 14 through 16, 19 through 21, and 24 through 26 of this report.

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

	Primary Government	
	2012	2011
Current Assets	\$ 48,617,732	\$ 41,136,627
Noncurrent Assets		
Capital Assets, Net	158,935,000	146,870,164
Other Noncurrent Assets	21,893,952	26,299,353
Total Assets	229,446,684	214,306,144
Current Liabilities	20,018,882	12,296,404
Noncurrent Liabilities	41,241,652	43,805,013
Total Liabilities	61,260,534	56,101,417
Net Assets		
Invested in Capital Assets, Net of Related Debt	127,170,268	119,131,410
Restricted	38,072,695	36,254,337
Unrestricted	2,943,187	2,818,980
Total Net Assets	\$ 168,186,150	\$ 158,204,727

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**

	2012	2011
Operating Revenues		
Tuition and Fees, Net	\$ 24,526,441	\$ 23,410,086
Federal and State Grants and Contracts	15,423,280	16,459,103
Private Grants and Contracts	1,904,366	1,855,366
Auxiliary Enterprises, Net	16,025,226	14,991,800
Other Operating Revenues	201,109	712,793
Total Operating Revenues	58,080,422	57,429,148
Operating Expenses	100,996,911	99,700,185
Operating Loss	(42,916,489)	(42,271,037)
Non-operating Revenues (Expenses)		
State Appropriations	44,848,541	46,754,051
Investment Income	1,214,319	1,434,981
Interest on Capital Asset-Related Debt	(1,552,828)	(1,446,230)
Gain (Loss) on Disposal of Asset	4,331	-
Other Non-operating (Expenses)	(276,225)	(79,338)
Net Non-operating Revenues	44,238,138	46,663,464
Income (Loss) before Other Revenues, Expenses, Or Gains	1,321,649	4,392,427
Other Revenues, Expenses, or Gains (Losses)		
Capital Appropriations and Grants	5,605,636	5,821,628
Capital Contributions	1,026,070	695,791
Capital Facilities Fee	2,028,068	2,056,250
Net Other Revenues, Expenses, or Gains (Losses)	8,659,774	8,573,669
Increase in Net Assets	9,981,423	12,966,096
Net Assets, Beginning of Year	158,204,727	145,210,270
Prior Period Adjustment	-	28,361
Net Assets, Beginning of Year, As Restated	158,204,727	145,238,631
Net Assets, End of Year	\$ 168,186,150	\$ 158,204,727

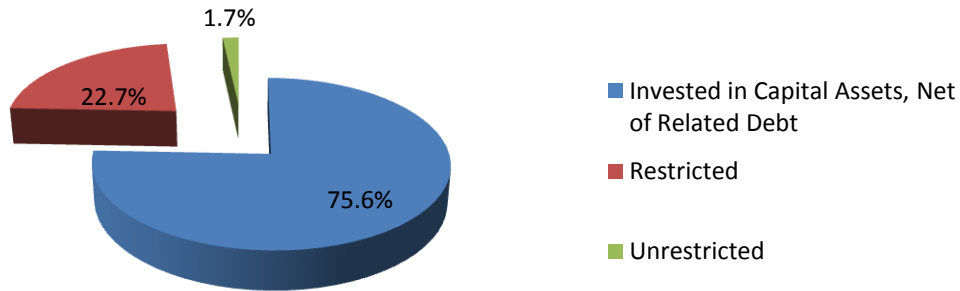
NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

CHANGES IN NET ASSETS

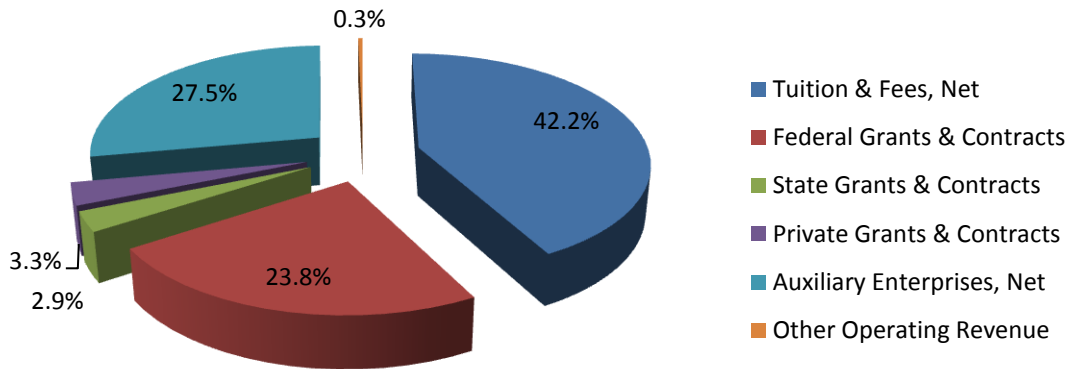
At June 30, 2012, the NSCS had net assets of \$168.2 million, an increase of \$10.0 million or 6.3% over 2011. The net assets were comprised of Unrestricted - \$2.9 million; Restricted - \$38.1 million, and Invested in Capital Assets, Net of Related Debt - \$127.2 million.

Net Assets



The operating revenues were \$58.1 million, compared to \$57.4 million in 2011, a 1.1% increase. Operating revenues include \$24.5 million in Net Tuition and Fees, Federal Grants and Contracts of \$13.8 million, State Grants and Contracts of \$1.7 million, Private Grants and Contracts of \$1.9 million, Net Auxiliary Enterprises of \$16.0 million, and Other Operating Revenues of \$0.2 million.

Operating Revenues

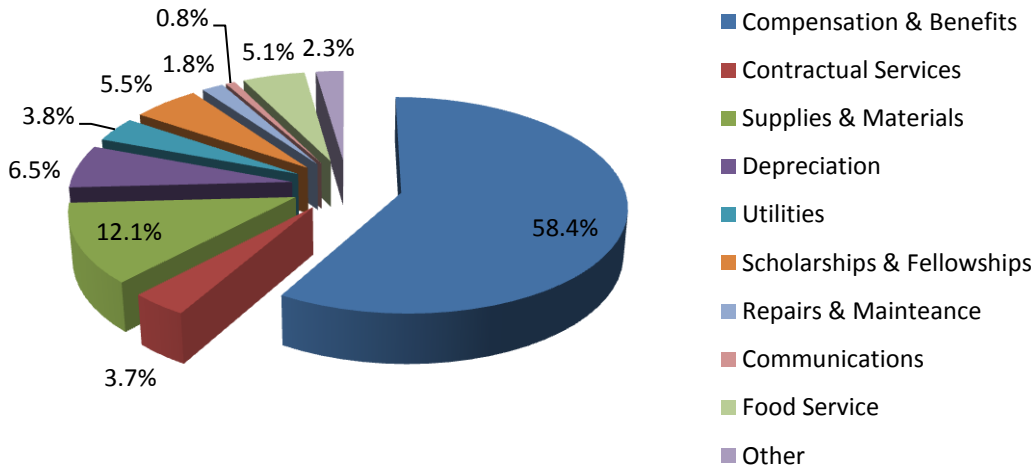


NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

Operating Expenses for the year ended June 30, 2012, amounted to \$101.0 million, compared to \$99.7 million in 2011. Compensation and Benefits accounted for \$59.0 million, or 58.4% of the total; Contractual Services were \$3.7 million; Supplies and Materials, \$12.2 million; Depreciation, \$6.6 million; and Utilities, \$3.8 million. Other Operating Expenses consisted of Scholarships and Fellowships, \$5.6 million; Repairs and Maintenance, \$1.8 million; Communications, \$0.8 million, Food Service, \$5.2 million; and Other Operating Expenses, \$2.3 million.

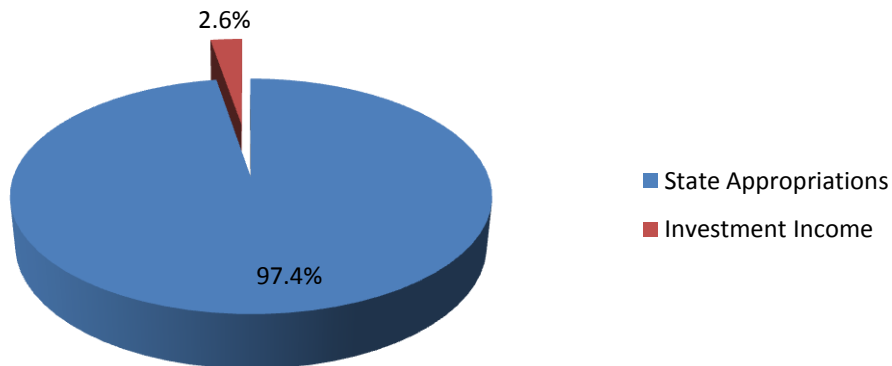
Operating Expenses



The current year operating loss amounted to \$42.9 million, compared to an operating loss in 2011 of \$42.3 million.

Non-operating revenues consist of State Appropriations and Investment Income.

Non-Operating Revenues



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, 2011, to the fiscal year ended June 30, 2012, is an increase in capital assets, net of \$12.1 million, most of which is related to residence hall renovations at both Peru State and Wayne State and renovations of Carhart Science Building and Hahn Administration Building at Wayne State.

Tuition and Fee income increased \$1.1 million or 4.8%, and Auxiliary Enterprise revenues increased \$1.0 million, or 6.9% from the prior fiscal year. Federal Grants and Contracts decreased \$1.2 million, or 8.1%. State and Private Grants and Contracts each had a slight increase from fiscal year 2011 amounts.

Non-operating Revenues reflect a \$1.9 million or 4.1% decrease in expenditure of State Appropriations and a 15.4% decrease in investment income.

Operating Expenses for the year ended June 30, 2012, increased by \$1.3 million or 1.3%. Within the Operating Expenses category, Compensation and Benefits decreased approximately \$0.4 million. Health insurance premiums remained stable for 2011-2012 with no increase in rates. Utility costs decreased by 3.9%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2012, the NSCS had recorded \$234.1 million in gross capital assets. During the fiscal year ended June 30, 2012, the investment in buildings and improvements increased by \$11.4 million; the investment in infrastructure increased by \$0.9 million; furniture, fixtures, and equipment increased by \$1.1 million; and construction in progress increased by \$5.2 million. At the end of the fiscal year, the NSCS had \$75.1 million in accumulated depreciation that left \$158.9 million in net capital assets.

At the end of the fiscal year, the NSCS had \$52.9 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$49.0 million and \$3.5 million in accrued compensated absences. Additional debt of \$8.8 million was issued and previously existing bond obligations were reduced by \$2.5 million.

In May 2012, \$8.8 million in revenue bonds were issued under the NSCS Master Resolution to refund Series 2002 bonds for WSC and PSC. Refunding of these Series 2002 bonds will result in a present value savings of \$1.5 million to the Colleges.

Several construction projects have been completed at the Colleges, including Phase II of the WSC Carhart Science renovation project. Phase II was completed using College cash funds and private funds. The final phase of the Carhart Science renovation is currently underway with funding from the LB 309 building renewal task force, College cash funds, and private funds. The WSC Pile Hall renovation project was completed using proceeds from the issuance of revenue bonds and the PSC Morgan Hall, also funded from the issuance of revenue bonds, was substantially complete on June 30, 2012. The renovation of the WSC Willow Bowl was in

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

(Continued)

progress and planning was nearing completion on several projects, including the CSC Rangeland Center Phase I, the CSC Armstrong Gymnasium renovation and addition, and the PSC Oak Bowl renovation through various funding sources, including State appropriations, the LB 309 building renewal task force, College cash funds, and/or privately raised funds.

All projects using bond proceeds from LB 605 have been completed, except for a small amount of funding for the CSC Administration building renovation project. While construction work on the project is complete, some funds remain in the project that are reserved for artwork and final miscellaneous expenditures. Various deferred repair and fire and life safety upgrades are in progress at all three Colleges.

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

State funding for the NSCS is relatively stable for the 2011-2013 biennium. The Governor and Legislature approved state funding for the NSCS at \$45,450,893 for 2012-2013, an increase of 1.3%. During the 2012 legislative session, the Legislature passed LB 968, which authorized the allotment of \$6.7 million for construction and renovation of the Armstrong Gymnasium at CSC. The release of the funds was contingent upon evidence CSC received a minimum of \$2.0 million from private or other funds to meet project costs in excess of this appropriation. This requirement has been met. In addition, LB 968 authorized \$7.5 million for PSC to undertake renovation of and/or improvements to the Oak Bowl. Of this amount \$5.0 million is available immediately and \$2.5 million is available when PSC provides evidence that a minimum of \$1.5 million from private or other funds, or non-State in-kind services, materials, or property has been received by the NSCS to meet project costs in excess of the appropriation contained in the LB.

The Board of Trustees increased tuition rates for 2012-2013 by 3.5%.

In accordance with the NSCS Bargaining Unit agreements for 2011-2013, faculty and professional staff will receive a 1% increase for 2012-2013. Support staff will receive a 1% increase, while maintaining longevity increases.

In addition to receiving notification of a 3% premium increase in health insurance rates for 2012-2013, the NSCS has also been notified that premium rates for the 2013-2014 year will increase an additional 6.25%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

Enrollment at the State Colleges (annual FTE) remained relatively stable for 2011-2012. Fall enrollments are also expected to remain stable for 2012-2013. The NSCS continues to engage in an increased emphasis on enrollment management and marketing.

The NSCS expects to issue revenue bonds, not to exceed \$8 million, in December 2012 with closing in early January 2013 for projects at CSC. Bond proceeds from this 2013 issue will be used to replace the West Court apartments and the roofs on Andrews Hall, Kent Hall, Edna Work Hall, Edna Work Wing, and the east side of the Student Center.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET ASSETS
June 30, 2012

Assets

Current Assets

Cash and Cash Equivalents	\$ 24,852,460
Restricted Cash and Cash Equivalents	20,267,087
Accounts Receivable, Net of Allowance	1,464,016
State Grants and Appropriations Receivable	616,811
Other Receivables	349,743
Inventories	112,407
Loans to Students, Net	395,756
Prepaid Expenses	540,904
Deposits with Vendors	18,548
	<u>48,617,732</u>

Non-current Assets

Restricted Cash and Cash Equivalents	19,086,727
Investment Income Receivable	2,629
Loans to Students, Net	2,036,322
Capital Assets, Net	158,935,000
Deferred Bond Issue Costs, Net	641,359
Other Non-current Assets	126,915
	<u>180,828,952</u>

Total Assets	<u>229,446,684</u>
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Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	7,202,159
Accrued Compensated Absences	374,196
Other Liabilities	102,835
Deferred Revenue	178,101
Interest Payable	834,147
Long-Term Debt	11,205,334
Deposits Held in Custody for Others	122,110
	<u>20,018,882</u>

Non-current Liabilities

Accrued Compensated Absences	3,148,134
Unamortized Bond Premium	170,663
Long-Term Debt	37,922,855
	<u>41,241,652</u>

Total Liabilities	<u>61,260,534</u>
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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, 2012

Net Assets	
Invested in Capital Assets, Net of Related Debt	127,170,268
Restricted for:	
Expendable:	
Loans	2,605,597
Debt Service	28,280,367
Plant	4,162,874
Other	3,023,857
Unrestricted	<u>2,943,187</u>
 Total Net Assets	 <u><u>\$ 168,186,150</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, 2012

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	863,961
Cash and Cash Equivalents - Restricted		146,369
Certificates of Deposit		1,365,259
Investments		12,185,987
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$88,090 for 2012		1,030,510
Prepaid Expenses		-
Other Assets		2,566,620
Property and Equipment, Net of Accumulated Depreciation		49,163
TOTAL ASSETS	\$	18,207,869

LIABILITIES AND NET ASSETS

Accounts Payable	\$	769
Wages Payable		27,569
Scholarships Payable		311,370
Deferred Revenue		68,104
Due to Other Agencies		206,585
TOTAL LIABILITIES		614,397
Unrestricted Net Assets:		
Operating Fund (Deficit)		(53,653)
CSC General Fund		610,851
CSC Quasi Endowment		398,483
Greatest Need		809,857
Total Unrestricted Net Assets		1,765,538
Temporarily Restricted Net Assets:		
Donor Designated		3,782,256
Named Endowment Activity		1,021,491
Total Temporarily Restricted Net Assets		4,803,747
Permanently Restricted Net Assets:		
Named Endowment		11,024,187
TOTAL NET ASSETS		17,593,472
TOTAL LIABILITIES AND NET ASSETS	\$	18,207,869

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, 2011

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	314,342
Unconditional Promises to Give		6,600
Student Loans Receivable		1,424
Interest Receivable		6,224
Prepaid Expenses		4,463
Current Portion of Notes Receivable		19,647
TOTAL CURRENT ASSETS		352,700

PROPERTY AND EQUIPMENT

Land		65,115
Office Furniture and Fixtures		35,681
Vehicles		23,650
TOTAL PROPERTY AND EQUIPMENT		124,446
Less Accumulated Depreciation		31,811
NET PROPERTY AND EQUIPMENT		92,635

OTHER ASSETS

Investments		9,746,394
Real Estate Held for Future College Use		174,816
Notes Receivable, Less Current Portion		158,190
TOTAL OTHER ASSETS		10,079,400
TOTAL ASSETS	\$	10,524,735

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	24,946
Accrued Compensation		71,791
Accrued Expenses		6,433
Refundable Deposits		82,384
Current Portion of Note Payable		4,258
Current Portion of Gift Annuity		35,000
TOTAL CURRENT LIABILITIES		224,812

LONG-TERM LIABILITIES

Note Payable, Less Current Portion		9,222
Gift Annuity, Less Current Portion		77,609
TOTAL LONG-TERM LIABILITIES		86,831
TOTAL LIABILITIES		311,643

NET ASSETS

Unrestricted Net Assets:		
Operating		1,921,394
Board Designated		1,211,330
TOTAL UNRESTRICTED NET ASSETS		3,132,724
Temporarily Restricted		1,579,447
Permanently Restricted		5,500,921
TOTAL NET ASSETS		10,213,092
TOTAL LIABILITIES AND NET ASSETS	\$	10,524,735

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, 2012

ASSETS

Cash and Cash Equivalents - Unrestricted	\$ 99,911
Cash and Cash Equivalents - Restricted	412,825
Accrued Interest Receivable	585
Inventory	3,515
Unconditional Promises to Give	495,195
Other Receivables	1,615
Investments	13,874,166
Property	294,463
Cash Value Life Insurance	77,055
Assets Restricted for Annuity Contracts	
Investments	907,335
Assets Held in Perpetual Trust	
Investments	767,634
	767,634
TOTAL ASSETS	\$ 16,934,299

LIABILITIES AND NET ASSETS

Accounts & Faculty Grants Payable	\$ 176,008
Deferred (Unearned) Event Revenue	1,622
Annuities Payable	485,112
Total Liabilities	662,742

Net Assets:

Unrestricted:	
Undesignated	1,916,165
Endowment Funds Deficit	(59,871)
Designated	226,614
Total Unrestricted Net Assets	2,082,908
Temporarily Restricted	2,455,852
Permanently Restricted	11,732,797
Total Net Assets	16,271,557

TOTAL LIABILITIES AND NET ASSETS	\$ 16,934,299
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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, 2012

Operating Revenues

Tuition and Fees Net of Scholarship Allowances and Institutional Waivers Totaling \$10,891,736	\$ 24,526,441
Federal Grants and Contracts	13,758,810
State Grants and Contracts	1,664,470
Private Grants and Contracts	1,904,366
Auxiliary Enterprises Net of Scholarship Allowances and Institutional Waivers Totaling \$2,617,839	16,025,226
Other Operating Revenues	201,109
Total Operating Revenues	58,080,422

Operating Expenses

Compensation and Benefits	58,977,174
Contractual Services	3,755,100
Supplies and Materials	12,191,790
Scholarships and Fellowships	5,617,769
Depreciation	6,604,064
Utilities	3,760,004
Repairs and Maintenance	1,853,025
Communications	757,724
Food Service	5,188,435
Other	2,291,826
Total Operating Expenses	100,996,911

Operating Loss (42,916,489)

Non-operating Revenues (Expenses)

State Appropriations	44,848,541
Investment Income	1,214,319
Interest on Capital Asset-Related Debt	(1,552,828)
Gain (Loss) on Disposal of Asset	4,331
Other Non-operating Revenues (Expenses)	(276,225)
Net Non-operating Revenues (Expenses)	44,238,138

(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, 2012

Income Before Other Revenues, Expenses, or Gains (Losses)	1,321,649
Other Revenues, Expenses, or Gains (Losses)	
Capital Facilities Fees	2,028,068
Capital Contributions	1,026,070
Capital Appropriations and Grants	5,605,636
Net Other Revenues, Expenses, or Gains (Losses)	8,659,774
Increase in Net Assets	9,981,423
Net Assets, Beginning of Year	158,204,727
Net Assets, End of Year	\$ 168,186,150

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, 2012

REVENUES, GAINS (LOSSES), AND OTHER SUPPORT	
Fundraising Income	\$ 966,860
Principle Contributions to Named Endowments	411,611
Management Fees	249,351
State Income	191,890
Unrealized Gain on Investments	61,833
Realized Gain on Investments	(315,030)
Change in the Value of Trusts	190,017
Interest and Dividend Income	323,378
Event Income	49,420
Miscellaneous Income	2,418
	2,131,748
Total Revenues, Gains (Losses), and Other Support	2,131,748
Transfer Between Net Assets	-
Net Assets Released From Restrictions	-
	-
Total Support and Reclassifications	2,131,748
EXPENSES	
Program Services	718,358
General and Management	407,023
Fundraising	335,986
	1,461,367
Total Expenses	1,461,367
CHANGE IN NET ASSETS	670,381
NET ASSETS, BEGINNING OF YEAR	16,923,091
NET ASSETS, END OF YEAR	\$ 17,593,472

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, 2011

PUBLIC SUPPORT AND REVENUE	
Contributions	\$ 1,198,607
Special Events	33,768
Interest and Dividends	293,025
Realized Gain on Sale of Investments	602,601
Unrealized Loss on Investments	(981,936)
Change in Value of Annuities	(31,716)
Miscellaneous Income	8,332
	<hr/>
TOTAL PUBLIC SUPPORT AND REVENUE	1,122,681
	<hr/>
EXPENSES	
Program Expenses	474,847
Management Expenses	233,001
Fundraising Expenses	313,491
	<hr/>
TOTAL EXPENSES	1,021,339
	<hr/>
Net Assets Released from Restrictions	-
	<hr/>
INCREASE/(DECREASE) IN NET ASSETS	101,342
NET ASSETS - BEGINNING OF YEAR	<hr/> 10,111,750
NET ASSETS - END OF YEAR	<hr/> <hr/> \$ 10,213,092

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, 2012

REVENUES AND OTHER SUPPORT

Gift/Contributions Income	\$ 3,417,263
Interest and Dividends	262,664
Net Gain (Loss) on Investments	(220,224)
Other Non Gift Income	207,296
	<hr/>
Total Revenue and Other Support	3,666,999
	<hr/>

EXPENSES

General and Administrative	210,010
Fundraising	330,217
Program Expenses	3,753,433
	<hr/>
Total Expenses Before Amortization	4,293,660
Amortization of Annuity Contracts	51,988
	<hr/>
Total Expenses	4,345,648
	<hr/>
NET INCREASE (DECREASE) IN NET ASSETS	(678,649)
NET ASSETS, BEGINNING OF YEAR	<hr/> 16,950,206
NET ASSETS, END OF YEAR	<hr/> \$ 16,271,557
	<hr/> <hr/>

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, 2012

Cash Flows From Operating Activities

Tuition and Fees	\$ 24,279,619
Grants and Contracts	17,327,646
Payments to Suppliers	(25,851,408)
Payments for Utilities	(3,753,795)
Payments to Employees	(58,945,469)
Loans Issued to Students	(450,877)
Collections of Loans to Students	404,755
Sales and Services of Auxiliary Enterprises	15,945,795
Other Payments	(5,479,078)
	<hr/>
Net Cash Used in Operating Activities	(36,522,812)
	<hr/>

Cash Flows From Non-capital Financing Activities

State Appropriations	44,462,948
Grants and Contracts	(28,738)
Direct Lending Receipts	31,671,328
Direct Lending Payments	(31,671,328)
Other Receipts (Payments)	(302,789)
	<hr/>
Net Cash Provided by Non-capital Financing Activities	44,131,421
	<hr/>

Cash Flows From Capital and Related Financing Activities

Proceeds from Capital Debt	8,750,000
Capital Contributions	1,026,070
Purchase of Capital Assets	(19,680,200)
Disposal of Capital Assets	4,332
Principal Paid on Capital Debt	(2,525,334)
Interest Paid on Capital Debt	(1,747,031)
Capital Facilities Fees	2,020,486
Other	(48,216)
Capital Appropriations	5,605,636
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(6,594,257)
	<hr/>

Cash Flows From Investing Activities

Purchase/Sale of Investments	330,188
Investment Income	1,200,458
	<hr/>
Net Cash Provided by Investing Activities	1,530,646
	<hr/>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2012

Increase (Decrease) in Cash and Cash Equivalents	2,544,998
Cash and Cash Equivalents, Beginning of Year	<u>61,661,276</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 64,206,274</u></u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	\$ 24,852,460
Restricted Cash and Cash Equivalents - Current	20,267,087
Restricted Cash and Cash Equivalents - Non-current	<u>19,086,727</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 64,206,274</u></u>
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Loss	\$ (42,916,489)
Depreciation Expense	6,604,064
Changes in Operating Assets and Liabilities	
Receivables, Net	(196,570)
Inventories	20,887
Prepays and Other	(4,346)
Accounts Payable and Accrued Liabilities	107,968
Accrued Compensated Absences	43,613
Other Assets and Liabilities	<u>(181,939)</u>
 Net Cash Used in Operating Activities	 <u><u>\$ (36,522,812)</u></u>
 Supplemental Cash Flows Information	
Accounts Payable Incurred for Capital Asset Purchases	\$ 562,929

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$	670,381
Adjustments to Reconcile Increase (Decrease) in Net Assets		
To Net Cash Provided (Used) by Operating Activities		
Depreciation		25,812
Change in Allowance for Doubtful Accounts		40,081
Unrealized Loss (Gain) on Investments		315,030
Realized Loss (Gain) on Investments		(190,017)
Change in the Value of Trusts		(61,833)
Change in Estate Bequests		982,287
Property Support to College		-
Change in Beneficial Interest in Annuity		(14,631)
Proceeds from Contributions Restricted for		
Investment in Named Endowments		(411,611)
(Increase) Decrease In:		
Contributions Receivable		254,585
Prepaid Assets		7,184
Increase (Decrease) In:		
Accounts Payable		769
Wages Payable		(38,788)
Scholarships Payable		77,958
Deferred Revenue		14,631
Due to Other Agencies		(206,838)
Net Cash Provided (Used) by Operating Activities		1,465,000

CASH FLOWS FROM INVESTING ACTIVITIES

(Increase) Decrease in Cash Surrender Value of Life Insurance		(22,901)
Proceeds From Sale of Investments		1,969,091
Purchase of Investments		(3,759,841)
Purchase of Certificates of Deposit		(553,333)
Purchase of Property		-
Sale of Property		-
Net Cash Used by Investing Activities		(2,366,984)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Contributions Restricted for		
Investment in Named Endowments		411,611
Net Cash Provided by Financing Activities		411,611
Net Increase in Cash and Equivalents		(490,373)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 1,500,703

CASH AND EQUIVALENTS, END OF YEAR \$ 1,010,330

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and Equivalents - Unrestricted	\$	863,961
Cash and Equivalents - Restricted		146,369
Total Cash and Equivalents	\$	1,010,330

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Net Increase in Net Assets	\$	101,342
Adjustments to Reconcile Net Increase in Net Assets to Net Cash Provided/(Used) by Operating Activities:		
Depreciation		7,318
Unrealized Loss/(Gain) on Investments		981,936
Realized Gain on Investments		(602,601)
Gift of Property		(91,058)
Bad Debts		-
(Increase) Decrease in:		
Unconditional Promises to Give		360
Student Loans Receivable		4,479
Interest Receivable		665
Prepaid Expenses		102,624
Increase (Decrease) in:		
Accounts Payable		17,109
Accrued Compensation		32,368
Accrued Expenses		1,387
Refundable Deposits		(249)
Net Cash Provided/(Used) by Operating Activities		555,680

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment		(7,965)
Proceeds from Sale of Investments		426,400
Purchases of Investments		(1,056,426)
Net Gift Annuity (Payments)/Contributions		(2,829)
Payments Received on Notes Receivable		18,981
Net Cash Provided /(Used) by Investing Activities		(621,839)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Long-term Debt		5,000
Repayment of Long-term Debt		(4,017)
Net Cash Provided/(Used) by Financing Activities		983

NET INCREASE (DECREASE) IN CASH (65,176)

CASH, BEGINNING OF YEAR 379,518

CASH, END OF YEAR \$ 314,342

SUPPLEMENTAL DISCLOSURES

Noncash Investing and Financing Activities:		
Interest Paid	\$	2,471

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (678,649)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	6,255
Amortization of Annuity Obligations	51,988
Non Cash Contributions	(225,445)
Net Loss (Gain) on Investments & (Reinvested Income)	220,224
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable/Prepays & Misc. Receivables	(1,923)
Unconditional Promises to Give	311,958
Inventory	1,464
Cash Value Life Insurance	(4,446)
Increase (Decrease) in Operating Non-Cash Liabilities:	
Accounts Payable/Faculty Grants Payable	93,209
Net Cash Provided (Used) by Operating Activities	(225,365)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property	(94,418)
Net Sales (Purchases) of Investments	473,850
Net Cash (Used) by Investing Activities	379,432

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Annuity Contracts	(113,607)
Net Cash Provided (Used) by Financing Activities	(113,607)

NET CHANGE IN CASH & CASH EQUIVALENTS

	40,460
Cash and Cash Equivalents, Beginning of Year	472,276

CASH AND CASH EQUIVALENTS, END OF YEAR

	\$ 512,736
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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, 2012

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 Colleges. The NSCS includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), the NSCS Office, and the Nebraska State Colleges 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. Debt of the Corporation is expected to be repaid entirely or almost entirely with resources from the NSCS. Management of the NSCS also has operational responsibility for the activities of the Corporation. 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 No. 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 available to each Foundation's respective College in support of its programs. Although the Colleges do not control the timing or amount of receipts from the Foundations, the majority of resources or income the Foundations hold and invest is restricted to the activities of each Foundation's 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 12).

During the year ended June 30, 2012, Chadron State, Wayne State, and Peru State Foundations distributed \$650,563, \$3,158,393, and \$561,429, respectively to their Colleges 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 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 non-exchange 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 non-exchange transactions. Government-mandated non-exchange transactions that are not program specific (such as State appropriations), investment income, and interest on capital asset-related debt are included in non-operating 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 not subject to stipulation including designated departmental balances, encumbrances, and working capital funds.

Restricted Net Assets – Net assets restricted by creditors, grantors, or contributors and includes grant and research funds, student loan programs, funds for plant construction, and debt service on bond obligations.

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 and cash equivalents held by the Nebraska State Treasurer are deposited 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 makes 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, 2012.

The NSCS considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012, 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.

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 \$710,535 at June 30, 2012, and is identified by College as follows:

WSC	\$	197,915
CSC	\$	366,000
PSC	\$	135,019
NSCS Office	\$	11,601

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, 2012, was \$86,699, and is identified by College as follows:

WSC	\$	34,305
CSC	\$	12,395
PSC	\$	3,576
NSCS Office	\$	36,423

Inventories

The NSCS's inventories, consisting mainly of expendable supplies, 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; also, small temporary loans are provided to students from the WSC Foundation. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$186,291 at June 30, 2012, and is identified by College as follows:

WSC	\$	104,291
CSC	\$	82,000

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. Art objects, specimens, artifacts and collections, including library materials, are expensed so long as the items meet three conditions in accordance with GASB 34. For assets purchased after July 1, 2010, depreciation/amortization is computed using the straight-line method over the estimated useful life of each asset beginning with the month of purchase. Prior to July 1, 2010, depreciation/amortization was 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

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 accrue vacation up to the maximums established in Board policy and/or in the respective bargaining agreements. An employee's accrued vacation is paid out to the employee upon termination. 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 non-operating 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.

Non-operating revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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 (Concluded)

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances and institutional waiver allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Such 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 non-governmental 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 NSCS has elected to adopt, for calculation of scholarship allowances, an allocation methodology provided in the National Association of College and University Business Officers (NACUBO) industry guidance (student institutional waivers, which are also netted similar to scholarship allowances continue to be based on actual contra-account financial activity). The scholarship allowances and institutional waivers on tuition and fees and auxiliary enterprises for the year ended June 30, 2012, as calculated under the NACUBO method, were \$10,891,736 and \$2,617,839, respectively and are identified by College as follows:

		Tuition and Fees		Auxiliary Enterprises
WSC	\$	4,389,661	\$	1,184,666
CSC	\$	4,232,164	\$	819,105
PSC	\$	2,269,911	\$	614,068

2. Deposits, Investments, and Investment Return

Deposits

Per Board policy and State Statute, all money received by the NSCS shall be paid over to the State Treasurer, except that each College may retain in its possession a sum to make settlement and equitable adjustments with students so entitled, to make payments for day-to-day operations calling for immediate payment, and to provide for contingencies. All funds not paid over to the State Treasurer shall be maintained in an interest-bearing account such as a money market fund account. All deposits in local banks are to be secured by FDIC insurance or, if over the maximum of FDIC insurance, by bank-pledged securities.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

At June 30, 2012, cash and cash equivalents of \$44,427,144 on the Statement of Net Assets represents the NSCS's equity position in the State Treasurer's Short-Term Investment Pool (STIP). The bank balance of these STIP funds was \$44,766,832. Additional information on the deposit and investment risk associated with the State Treasurer's Investment Pool is included in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). An electronic version of this report is available by accessing the Nebraska Auditor of Public Accounts home page www.auditors.nebraska.gov and clicking "Reports".

Cash on hand at June 30, 2012 was \$5,350. The carrying amount of the NSCS's deposits not with the State Treasurer was \$1,104,604 and the bank balance was \$1,090,029. The bank balance at June 30, 2012, was entirely covered by FDIC and collateral held either in the NSCS's name or 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. The NSCS has no policy regarding custodial credit risk for deposits.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments

Management of the assets of the Facilities Corporation and the revenue bond program are delegated to the bond trustees appointed by the NSCS Board of Trustees. Funds held by the bond trustees are invested in direct general obligations of the United States of America as outlined in the bond indentures.

At June 30, 2012, the NSCS's investment balances, which had weighted average maturities of 32-35 days, had fair values as follows:

Investment Type		
Other Investments		
U.S. Treasury Fund	\$	16,644,398
Government Money Market Fund		2,024,778
		\$ 18,669,176

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's investments were rated as follows:

	Fair Value	Quality Ratings		
		AAA	AA	Unrated
U.S. Treasury Fund	\$ 16,644,398	\$ 16,644,398	\$ -	\$ -
Government Money Market Fund	2,024,778	2,024,778	-	-
	\$ 18,669,176	\$ 18,669,176	\$ -	\$ -

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 89% are in U.S. Treasury Funds and 11% are in Government Money Market Funds.

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. The NSCS does not have a formal policy for custodial credit risk. 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	\$	5,350
Deposits:		
Bank Deposits		1,104,604
Short Term Investment Pool		44,427,144
Investments		18,669,176
Total as of June 30, 2012	\$	64,206,274

Included in the Statement of Net Assets

Cash and Cash Equivalents	\$	24,852,460
Restricted Cash and Cash Equivalents		39,353,814
Total	\$	64,206,274

3. Capital Assets

The NSCS capital assets activity for the year ended June 30, 2012, was:

Assets

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,056,994	\$ -	\$ 23,251	\$ 1,033,743
Building and Improvements	158,332,320	11,463,065	79,305	169,716,080
Infrastructure	25,794,845	871,851	-	26,666,696
Furniture, Fixtures, and Equipment	14,795,209	1,241,963	178,045	15,859,127
Construction in Progress	15,642,060	17,146,947	11,982,907	20,806,100
Total Assets	215,621,428	30,723,826	12,263,508	234,081,746

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Capital Assets (Concluded)

Accumulated Depreciation

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Building and Improvements	54,641,891	4,046,970	79,305	58,609,556
Infrastructure	8,863,635	1,078,568	-	9,942,203
Furniture, Fixtures, and Equipment	5,245,738	1,478,101	128,852	6,594,987
Total Accumulated Depreciation	68,751,264	6,603,639	208,157	75,146,746
Net Capital Assets	<u>\$ 146,870,164</u>	<u>\$ 24,120,187</u>	<u>\$ 12,055,351</u>	<u>\$ 158,935,000</u>

Net Assets by College

	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>NSCS Office</u>	<u>Balance</u>
Land	\$ 976,647	\$ 49,395	\$ 7,701	\$ -	\$ 1,033,743
Building and Improvements	51,480,530	27,045,135	32,580,859	-	111,106,524
Infrastructure	8,662,508	4,446,756	3,615,229	-	16,724,493
Furniture, Fixtures, and Equipment	1,270,808	826,055	392,185	6,775,092	9,264,140
Construction in Progress	15,552,753	798,189	4,455,158	-	20,806,100
Net Capital Assets	<u>\$ 77,943,246</u>	<u>\$ 33,165,530</u>	<u>\$ 41,051,132</u>	<u>\$ 6,775,092</u>	<u>\$ 158,935,000</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, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Loan Obligations Payable	\$ 177,836	\$ -	\$ 19,647	\$ 158,189	\$ 20,334
Revenue and Refunding					
Bonds	24,195,000	8,750,000	990,000	31,955,000	9,610,000
Facilities Corporation					
Bonds	18,530,000	-	1,515,000	17,015,000	1,575,000
Total Long-Term Liabilities	<u>42,902,836</u>	<u>8,750,000</u>	<u>2,524,647</u>	<u>49,128,189</u>	<u>11,205,334</u>
Other Long-Term Liabilities:					
Accrued Compensated Absences	3,478,717	43,613	-	3,522,330	374,196
Unamortized Bond Premium	191,885	-	21,222	170,663	-
Other Liabilities	275,546	-	172,711	102,835	102,835
Total Other Long-Term Liabilities	<u>3,946,148</u>	<u>43,613</u>	<u>193,933</u>	<u>3,795,828</u>	<u>477,031</u>
Total Long-Term Liabilities	<u>\$ 46,848,984</u>	<u>\$ 8,793,613</u>	<u>\$2,718,580</u>	<u>\$ 52,924,017</u>	<u>\$11,682,365</u>

Termination Benefits

The NSCS has two programs for support staff in the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSME) bargaining unit and support staff excluded from the NAPE/AFSCME bargaining unit which must be accounted for under GASB Statement No. 47, *Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program. Under the *voluntary retirement settlement 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 final year base salary in 12 equal monthly installments following termination of employment. In addition, employees will be permitted to remain in the group medical and dental insurance plan offered retirees by Blue Cross/Blue Shield at the time of the employee's retirement. The NSCS will pay the employee's health/dental insurance (State and employee burden) costs for the 12-month period following termination of employment. If the retired employee reaches the age of 65 at any time during the 12 month period, at which time eligibility to participate in the Blue Cross/Blue Shield retiree plan ceases, the NSCS will pay an amount equivalent to

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

the full cost of the 65 Gold Plus Medicare Supplemental Plan or the Retired BlueSenior Classic Plan offered by Nebraska State Education Association (NSEA) for the payout period remaining. Under the current bargaining agreement and Board Policy, this plan was only available to those employees who retired on June 30, 2012. Similar voluntary retirement settlement program were also offered to support staff in the NAPE/AFSCME bargaining unit who retired on July 1, 2009, or June 30, 2010. Under the *early retirement incentive 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 premiums in the group medical and dental health insurance program offered retirees by Blue Cross Blue Shield at the time of the eligible employee's retirement. The payment of premium will continue until the retired employee becomes eligible for coverage under the Federal Medicare program, at which time the paid premiums shall cease.

At June 30, 2012, eight employees at WSC, three employees at PSC, and four 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	\$ 91,075	\$ 74,861
CSC	60,022	30,638
PSC	50,969	36,278
Total	\$ 202,066	\$ 141,777

Student Fees and Facilities Revenue and Refunding Bonds Series 2002

In August 2002, the NSCS Board of Trustees 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)

Student Fees and Facilities Revenue Bonds Series 2003A and 2003B

In November 2003, the NSCS Board of Trustees 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 Bonds Series 2010

In September 2010, the NSCS Board of Trustees authorized the issuance of \$5,000,000 of Student Fee and Facilities Revenue Bonds Series 2010. The purpose of the issuance was to finance improvements to Wayne State's Pile Hall. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amounts 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 \$5,000,000 in bonds bear interest at rates from 0.6% to 4.0% with payments due from 2011 to 2030.

Student Fees and Facilities Revenue Bonds Series 2011

In November 2010, the NSCS Board of Trustees authorized the issuance of \$3,600,000 of Student Fee and Facilities Revenue Bond Series 2011. The purpose of the issuance was to finance improvements to Peru State's Morgan Hall. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal 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 \$3,600,000 in bonds bear interest at rates from 0.75% to 5.05% with payments due from 2011 to 2031.

Student Fees and Facilities Revenue Bonds Series 2012

In May 2012, the NSCS Board of Trustees authorized the issuance of \$8,750,000 of Student Fee and Facilities Revenue Bonds Series 2012. The purpose of the issuance was to redeem in full the outstanding principal amount of the Student Fees and Facilities Revenue and Refunding Bonds Series 2002. See *Bond Redemption* below for more

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

information concerning the refunding. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amounts 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 PSC's portion of the bond obligation were \$6,045,000 and \$2,705,000, respectively, bearing interest at rates from 0.3% to 3.2%, with payments due from 2012 to 2027.

Nebraska State Colleges Facilities Corporation Bonds

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.

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
2013	\$ 20,334	\$ 5,537	\$ 25,871
2014	21,046	4,825	25,871
2015	21,783	4,088	25,871
2016	22,545	3,326	25,871
2017	23,334	2,537	25,871
2018-2019	49,147	2,595	51,742
Total	\$ 158,189	\$ 22,908	\$ 181,097

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

WSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2013	\$ 6,515,000	\$ 394,008	\$ 6,909,008
2014	705,000	283,964	988,964
2015	720,000	274,808	994,808
2016	735,000	264,061	999,061
2017	745,000	251,541	996,541
2018-2022	3,405,000	1,034,885	4,439,885
2023-2027	3,485,000	605,433	4,090,433
2028-2031	1,685,000	109,360	1,794,360
Total	<u>\$ 17,995,000</u>	<u>\$ 3,218,060</u>	<u>\$ 21,213,060</u>

CSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2013	\$ 200,000	\$ 231,823	\$ 431,823
2014	205,000	223,974	428,974
2015	215,000	215,571	430,571
2016	220,000	206,653	426,653
2017	230,000	197,143	427,143
2018-2022	1,320,000	810,043	2,130,043
2023-2027	1,695,000	424,706	2,119,706
2028-2029	810,000	41,000	851,000
Total	<u>\$ 4,895,000</u>	<u>\$ 2,350,913</u>	<u>\$ 7,245,913</u>

PSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2013	\$ 2,895,000	\$ 232,108	\$ 3,127,108
2014	295,000	184,805	479,805
2015	305,000	182,305	487,305
2016	305,000	178,960	483,960
2017	320,000	174,742	494,742
2018-2022	1,650,000	776,000	2,426,000
2023-2027	1,920,000	509,948	2,429,948
2028-2032	1,375,000	158,454	1,533,454
Total	<u>\$ 9,065,000</u>	<u>\$ 2,397,322</u>	<u>\$ 11,462,322</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Concluded)

Facilities Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2013	\$ 1,575,000	\$ 716,782	\$ 2,291,782
2014	1,635,000	644,407	2,279,407
2015	1,720,000	560,532	2,280,532
2016	1,805,000	479,175	2,284,175
2017	1,880,000	393,818	2,273,818
2018-2021	8,400,000	719,051	9,119,051
Total	<u>\$ 17,015,000</u>	<u>\$ 3,513,765</u>	<u>\$ 20,528,765</u>

NSCS Bond Summary

Year Ending June 30	Principal	Interest	Total
2013	\$ 11,205,334	\$ 1,580,258	\$ 12,785,592
2014	2,861,046	1,341,975	4,203,021
2015	2,981,783	1,237,304	4,219,087
2016	3,087,545	1,132,175	4,219,720
2017	3,198,334	1,019,781	4,218,115
2018-2022	14,824,147	3,342,574	18,166,721
2023-2027	7,100,000	1,540,087	8,640,087
2028-2032	3,870,000	308,814	4,178,814
Total	<u>\$ 49,128,189</u>	<u>\$ 11,502,968</u>	<u>\$ 60,631,157</u>

Revenue Bonds, Series 2002 were called on July 2, 2012, using proceeds from the issuance of Revenue Bonds, Series 2012. Of the year ending June 30, 2013, outstanding principal and interest amounts noted above, \$2,760,000 and \$65,384, respectively, related to PSC Revenue Bond, Series 2002B and \$6,180,000 and \$146,325, respectively, related to WSC Revenue Bond, Series 2002A.

The bond resolutions of the Nebraska State Colleges 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, 2012, the NSCS was in compliance with these requirements.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

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. CSC used this financing arrangement to finance the acquisition of a phone system. Installation and equipment related to the phone system totaled \$534,374. All capital leases entered into by CSC expire in 2013.

Future minimum capital lease payments for CSC as of June 30, 2012, were:

2013	\$ 104,123
Total Minimum Payments	104,123
Less: Interest and executor costs	1,598
Present value of net minimum payments	\$ 102,525

Noncancellable operating leases related primarily to equipment expire in various fiscal years through 2014. 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 operating lease payments at PSC as of June 30, 2012, were:

2013	\$ 80,120
2014	4,773
	\$ 84,893

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 the Board in accordance with Neb. Rev. Stat. § 85-320 (Reissue 2008). 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 2012, 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, 2012, by plan members and the NSCS aggregated were \$2,389,056 and \$3,186,192, respectively.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

6. Pension Plan (Concluded)

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 (SRA) plan and 457 deferred compensation supplemental plan. Plan members contributed \$861,338 to the SRA and \$73,971 to the 457 plan in 2012. The NSCS does not contribute to these supplemental plans.

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.
- E. Real and personal property through the Midwest Higher Education Compact's (MHEC) property program on a blanket basis for losses up to \$500,000,000, with the program funding a self insurance pool of \$1,000,000 per loss occurrence and a deductible of \$25,000 for the NSCS. Newly acquired properties are covered up to \$100,000,000 for 90 days from the date the insured takes ownership of the property. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Risk Management (Concluded)

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 \$8,452,491 as of June 30, 2012. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

WSC	\$	6,390,683
CSC	\$	1,283,933
PSC	\$	777,875

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. Restricted Net Assets (Concluded)

Other includes \$349,587 in funds set aside by the Board of Trustees for student scholarships and \$1,465,177 in unexpended special project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

10. Joint Venture

On September 14, 2006, the College entered into an interlocal agreement with Northeast Community College (NECC) to build and operate College Center in South Sioux City (CCSSC), Nebraska which offers classes from both NECC and Wayne State College (WSC). CCSSC began offering classes during the fiscal year ended June 30, 2011.

NECC administers the accounts payable related to joint operation and maintenance costs. The first four years, WSC is to reimburse NECC for 50% of these joint costs. In the fifth year joint costs will be prorated based on each College's percentage of total annual student semester credit hours at CCSSC. CCSSC is governed by CCSSC's Administrative Council which is a four member board composed of two appointees from NECC and two appointees from WSC. Operating costs and ownership of land and facilities are shared 50%-50% by NECC and WSC. Either party can terminate the agreement with a one-year notice giving the other party right of first refusal on purchase of the exiting party's interest in the building, contents, and land.

11. Subsequent Event – Bond Redemption

On May 23, 2012, the NSCS advance refunded \$8,940,000 of outstanding PSC and WSC Revenue Bond Series 2002 principal by issuing \$8,750,000 in Series 2012 bonds. The net proceeds of \$8,577,334 from Series 2012 bonds plus an additional \$601,709 were used to redeem of the Series 2002 bonds on the July 1, 2012 call date. The NSCS advance refunded the Series 2002 bonds to reduce its total debt service payments over the next 15 years by \$1,797,001. Bond refunding resulted in an estimated economic gain of \$1,471,734.

The difference between the reacquisition price and the net carrying amount of the old debt will be deferred and amortized over the remaining life of the new debt, which is the same as the life of the refunded debt.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

12. 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 49 – 68

Peru State Foundation – Pages 69 – 80

Wayne State Foundation – Pages 81 – 94

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
(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)

CSC 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.

Greatest Need - 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. The Board of Directors has designated \$490,000 of this fund balance to Capital Campaign Initiatives.

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 7.

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:

- o 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.
- o 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 asking prices.
- o 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.
- o 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
(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)

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, 2012 and 2011 was \$96,110 and \$94,154, respectively.

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 uncollectable, 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
(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)

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 was 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.

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 has 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 DEPOSITS

The Foundation maintains several bank accounts. The following table 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 at June 30, 2012 and 2011, respectively. The total bank balance represents the amount held by the bank. The carrying balance represents the reconciled general ledger balance at June 30, 2012 and 2011.

Category 1 - Insured by FDIC

Category 2 - Uninsured by FDIC, uncollateralized

Category 3 - Collateralized by United States Government Securities

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 2 - CASH DEPOSITS (CONTINUED)

June 30, 2012

Type of Deposits	Total Bank Balance	Total Carrying Balance	Custody Credit Risk		
			Category 1	Category 2	Category 3
Demand Deposits:					
Bank of the West					
Operating Account	\$ 128,107	\$ 128,107	\$ 128,107	\$ -	\$ -
North Platte Bank					
Operating Account	731,082	674,178	285,000	-	446,082
Credit Card Account	38,564	38,564	38,564	-	-
First National Bank – Chadron					
Custodial Account	195,255	146,369	195,255	-	-
Edward Jones					
Money Market	23,112	23,112	-	23,112	-
Certificates of Deposit					
Bank of the West	35,000	35,019	35,000	-	-
First State Bank	125,000	125,090	125,000	-	-
Chadron Fed Cr Union	250,110	250,274	250,000	110	-
Western Heritage	253,205	253,486	250,000	3,205	-
Security First Bank	250,000	250,859	250,000	-	-
FNB - Gordon	250,000	250,317	250,000	-	-
Platte Valley Bank	200,000	200,214	200,000	-	-
	<u>\$2,479,435</u>	<u>\$2,375,589</u>	<u>\$ 2,006,926</u>	<u>\$ 26,427</u>	<u>\$ 446,082</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 2 - CASH DEPOSITS (CONTINUED)

June 30, 2011

Type of Deposits	Total Bank Balance	Total Carrying Balance	Custody Credit Risk		
			Category 1	Category 2	Category 3
Demand Deposits:					
Bank of the West					
Operating Account	\$ 369,326	\$ 389,876	\$ 250,000	\$119,326	\$ -
North Platte Bank					
Operating Account	823,469	802,039	481,617	-	341,852
Credit Card Account	18,383	18,383	18,383	-	-
First National Bank – Chadron					
Custodial Account	436,949	267,896	250,000	186,949	-
Edward Jones					
Money Market	22,509	22,509	-	22,509	-
Certificates of Deposit					
Bank of the West	35,000	35,000	35,000	-	-
First State Bank	125,000	125,000	125,000	-	-
Chadron Fed Cr Union	100,399	100,212	100,399	-	-
Western Heritage	151,034	150,641	151,034	-	-
Security First Bank	100,558	100,558	100,558	-	-
FNB - Gordon	100,190	100,190	100,190	-	-
Platte Valley Bank	200,325	200,325	200,325	-	-
	<u>\$2,483,142</u>	<u>\$2,312,629</u>	<u>\$ 1,812,506</u>	<u>\$328,784</u>	<u>\$ 341,852</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 3 – CONTRIBUTIONS

Contributions receivable at June 30, 2012 and 2011 were as follows:

	2012	2011
Receivable in Less Than One Year	\$ 418,121	\$ 474,177
Receivable in One to Five Years	733,913	949,353
Receivable in Six to Ten Years	4,500	9,420
Total Contributions Receivable	\$ 1,156,534	\$ 1,432,950
Less Unamortized Discounts to Net Present Value	(37,934)	(59,765)
Less Allowance for Uncollectable Accounts	(88,090)	(48,009)
Net Contributions Receivable	<u>\$ 1,030,510</u>	<u>\$ 1,325,176</u>

The discount rates used on long-term promises to give were 1.5% for the years ended June 30, 2012 and 2011.

NOTE 4 – INVESTMENTS

Investments are stated at fair value and are shown below as of June 30, 2012 and 2011:

	Cost 06/30/2012	Market Value 06/30/2012	Unrealized Appreciation
LLC Groups:			
MGA Diversified Core Equity LLC	\$ 1,965,414	\$ 2,546,921	\$ 581,507
MGA Focused Core Equity LLC	1,371,566	1,385,852	14,286
MGA Diversified Sm/Mid Cap Equity LLC	810,262	966,976	156,714
MGA Focused Small Cap Equity LLC	606,785	610,529	3,744
MGA International Equity LLC	1,264,424	1,239,025	(25,399)
MGA Cash Reserves LLC	593,490	593,517	27
MGA Core Income LLC	1,726,159	1,779,723	53,564
MGA Total Return LLC	2,339,844	2,442,620	102,776
MGA Tactical Opportunity LLC	568,234	620,824	52,590
Total Investment	<u>\$ 11,246,178</u>	<u>\$ 12,185,987</u>	<u>\$ 939,809</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 4 – INVESTMENTS (CONTINUED)

	Cost 06/30/2011	Market Value 06/30/2011	Unrealized Appreciation
LLC Groups:			
MGA Diversified Core Equity LLC	\$ 1,533,698	\$ 2,188,289	\$ 654,591
MGA Focused Core Equity LLC	1,151,337	1,163,912	12,575
MGA Diversified Sm/Mid Cap Equity LLC	627,558	856,322	228,764
MGA Focused Small Cap Equity LLC	525,006	505,733	(19,273)
MGA International Equity LLC	891,288	1,036,585	145,297
MGA Cash Reserves LLC	518,891	519,179	288
MGA Core Income LLC	1,558,287	1,587,183	28,896
MGA Total Return LLC	1,979,796	2,144,321	164,525
MGA Tactical Opportunity LLC	479,552	518,727	39,175
Total Investment	<u>\$ 9,265,413</u>	<u>\$10,520,251</u>	<u>\$ 1,254,838</u>

Effective July 1, 2008, the Foundation adopted FASB ASC 820-10, *Fair Value Measurements*, which has been applied prospectively as of the beginning of the 2009 fiscal year. FASB ASC 820-10, *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 FASB ASC 820-10 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
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

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 Foundation's 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, 2012 and 2011

June 30, 2012	Fair Value	Fair Value Measurements Using		
		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	\$ 2,546,921	\$ -	\$ 2,546,921	\$ -
MGA Focused Core Equity LLC	1,385,852	-	1,385,852	-
MGA Diversified Sm/Mid Cap	966,976	-	966,976	-
MGA Focused Small Cap Equity	610,529	-	610,529	-
MGA International Equity LLC	1,239,025	-	1,239,025	-
MGA Cash Reserves LLC	593,517	-	593,517	-
MGA Core Income LLC	1,779,723	-	1,779,723	-
MGA Total Return LLC	2,442,620	-	2,442,620	-
MGA Tactical Opportunity LLC	620,824	-	620,824	-
Total Investment	\$12,185,987	\$ -	\$12,185,987	\$ -

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 4 – INVESTMENTS (CONTINUED)

June 30, 2011	Fair Value	Fair Value Measurements Using		
		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	\$ 2,188,289	\$ -	\$ 2,188,289	\$ -
MGA Focused Core Equity LLC	1,163,912	-	1,163,912	-
MGA Diversified Sm/Mid Cap	856,322	-	856,322	-
MGA Focused Small Cap Equity	505,733	-	505,733	-
MGA International Equity LLC	1,036,585	-	1,036,585	-
MGA Cash Reserves LLC	519,179	-	519,179	-
MGA Core Income LLC	1,587,183	-	1,587,183	-
MGA Total Return LLC	2,144,321	-	2,144,321	-
MGA Tactical Opportunity LLC	518,727	-	518,727	-
Total Investments	<u>\$10,520,251</u>	<u>\$ -</u>	<u>\$10,520,251</u>	<u>\$ -</u>

The following schedule summarizes the investment return in the statement of activities for the year ended June 30, 2012 and 2011:

	2012	2011
Interest and dividend income	\$ 305,212	\$ 254,637
Net realized gains	190,846	753,483
Net unrealized gains	(315,029)	910,917
Management fees	(86,758)	(79,134)
Total	<u>\$ 94,271</u>	<u>\$1,839,903</u>

NOTE 5 - OTHER ASSETS

The Foundation is the beneficiary of various trusts and estates 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 and estates 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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 5 - OTHER ASSETS (CONTINUED)

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 Funkhouser Estate Bequest was finalized in the current fiscal year. The Foundation was notified of two additional estate bequests (Weedon and Gates) in 2012 that are expected to be distributed in the next fiscal year. These bequests were recorded at their estimated fair value as of June 30, 2012. The fair value of the beneficial interests at June 30, 2012 and 2011 were as follows:

2012	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Chicoine Trust	\$2,301,611	\$ -	\$2,301,611	\$ -
Beneficial Interest in Judith Hale Bequest	17,308	-	-	17,308
Beneficial Interest in Ron Weedon Estate Bequest	102,104	-	-	102,104
Beneficial Interest in Ruth Gates Estate Bequest	19,125	-	-	19,125
Cash Surrender Value of Life Insurance	58,368	-	-	58,368
Beneficial Interest in Annuity	68,104	-	-	68,104
Total Other Assets	\$2,566,620	\$ -	\$2,301,611	\$ 265,009
2011	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Chicoine Trust	\$2,239,778	\$ -	\$2,239,778	\$ -
Beneficial Interest in Judith Hale Bequest	709,480	-	-	709,480
Beneficial Interest in Helen Funkhouser Estate Bequest	411,343	-	-	411,343
Cash Surrender Value of Life Insurance	35,467	-	-	35,467
Beneficial Interest in Annuity	53,473	-	-	53,473
Total Other Assets	\$3,449,541	\$ -	\$2,239,778	\$ 1,209,763

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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 5 - OTHER ASSETS (CONTINUED)

2012	Beneficial Interest in Weedon, Gates, and Gochnauer Estates	Beneficial Interest in Hale Estate and Funkhouser Estate Bequest	Cash Surrender Value of Life Insurance	Beneficial Interest in Annuity
Beginning balance, July 1, 2011	\$ -	\$ 1,120,823	\$ 35,467	\$ 53,473
Purchases, issuance, settlements	121,229	(1,103,515)	21,398	12,598
Total gains (realized, unrealized)	-	-	1,503	2,033
Ending balance, June 30, 2012	<u>\$ 121,229</u>	<u>\$ 17,308</u>	<u>\$ 58,368</u>	<u>\$ 68,104</u>

2011	Beneficial Interest in Truwe Trust and Lindeken Estate Bequests	Beneficial Interest in Hale Estate and Funkhouser Estate Bequests	Cash Surrender Value of Life Insurance	Beneficial Interest in Annuity
Beginning balance, July 1, 2010	\$ 534,491	\$ -	\$ 34,619	\$ 55,864
Purchases, issuance, settlements	(534,491)	1,120,823	-	(7,368)
Total gains (realized, unrealized)	-	-	848	4,977
Ending balance, June 30, 2011	<u>\$ -</u>	<u>\$ 1,120,823</u>	<u>\$ 35,467</u>	<u>\$ 53,473</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Land	\$ 38,500	\$ 38,500
Office Equipment	96,947	96,947
	<u>\$ 135,447</u>	<u>\$ 135,447</u>
Less Accumulated Depreciation	(86,284)	(60,472)
Property & Equipment, Net of Accumulated Depreciation	<u>\$ 49,163</u>	<u>\$ 74,975</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 7 - 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, 2012 and 2011, the restricted cash balance was \$146,369 and \$267,896, respectively. The amount held in endowed investments as of June 30, 2012 and 2011 was \$455,522 and \$454,189 and the total due to other agencies balance was \$206,585 and \$413,423, respectively.

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS

The Foundation follows FASB ASC 958-205-50-1B, which 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). It 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, 2012 and 2011, the Board of Directors had designated \$398,483 and \$260,101, respectively, 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:

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

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

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 328 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 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 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 NUPMIFA. In accordance with NUMIFA, 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 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.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

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 the 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.

Endowment net asset composition by type of fund as of June 30, 2012, is as follows:

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment fund	\$ -	\$ 1,021,491	\$11,024,187	\$ 12,045,678
Board-designated endowment fund	398,483	-	-	398,483
Total funds	<u>\$ 398,483</u>	<u>\$ 1,021,491</u>	<u>\$11,024,187</u>	<u>\$ 12,444,161</u>

Changes in endowment net assets as of June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 260,101	\$ 1,319,298	\$10,599,003	\$ 12,178,402
Contributions	-	-	411,611	411,611
Investment Income, net of fees	3,041	375,525	-	378,566
Net appreciation	(4,551)	(292,831)	-	(297,382)
Transfers	147,456	-	13,573	161,029
Amounts appropriated for expenditures	(7,564)	(380,501)	-	(388,065)
Endowment net assets, end of year	<u>\$ 398,483</u>	<u>\$ 1,021,491</u>	<u>\$11,024,187</u>	<u>\$ 12,444,161</u>

Endowment net asset composition by type of fund as of June 30, 2011, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment fund	\$ -	\$ 1,319,298	\$10,599,003	\$ 11,918,301
Board-designated endowment fund	260,101	-	-	260,101
Total funds	<u>\$ 260,101</u>	<u>\$ 1,319,298</u>	<u>\$10,599,003</u>	<u>\$ 12,178,402</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

Changes in endowment net assets as of June 30, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 150,162	\$ (127,492)	\$ 8,977,048	\$ 8,999,718
Contributions	-	-	1,595,741	1,595,741
Investment Income, net of fees	22,634	864,052	-	886,686
Net appreciation	16,576	857,126	-	873,702
Transfers	75,171	-	26,214	101,385
Amounts appropriated for expenditures	(4,442)	(274,388)	-	(278,830)
Endowment net assets, end of year	<u>\$ 260,101</u>	<u>\$ 1,319,298</u>	<u>\$ 10,599,003</u>	<u>\$ 12,178,402</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Scholarships and College Use	\$ 2,502,136	\$ 2,123,287
Chicoine Trust - Time Restrictions	2,301,611	2,239,778
Total Restrictions Released	<u>\$ 4,803,747</u>	<u>\$ 4,363,065</u>

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

	2012	2011
Purpose Restriction Accomplished:		
Scholarships	\$ 267,490	\$ 204,805
College Use	-	300,000
Management Fees	283,724	290,378
Investment Fees	80,104	73,949
Total Restrictions Released	<u>\$ 631,318</u>	<u>\$ 869,132</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2012 and 2011, net assets were permanently restricted for the endowment in the amount of \$11,024,187 and \$10,599,003, respectively. The income from the endowment can be used to support Chadron State College. At June 30, 2012 and 2011, the fair value of investments related to the restricted endowment was \$11,306,470 and \$10,107,600, leaving the amount assigned to individual donor restricted endowments required to be maintained in perpetuity with an excess balance of \$282,283 for 2012 and a \$491,403 deficiency for 2011.

NOTE 11 - 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 years ended June 30, 2012 and 2011 were \$17,471 and \$17,847, respectively.

NOTE 12 - SUBSEQUENT EVENTS

On August 25, 2012, the Chadron State Foundation board approved named endowment and grant to campus payouts for the 2013-14 academic year. This will result in a liability at December 31, 2012, of \$331,175 for the named endowments and \$85,000 for the grant to campus.

The Foundation will provide the College with \$2 million for the Rangeland Center Project. The Foundation has been notified of the approval of a 1 % interest loan from the Panhandle Rural Electric Membership, PREMA, through the Rural Economic Development Loan Program with the USDA. The conditions of the loan include a 10 year payback period with no penalty for prepayment. The Foundation was also required to obtain a bank guarantee for the PREMA loan to insure any default. First National Bank of North Platte approved the guarantee with an additional 1% interest rate amortized over the life of the loan. The loan will be used as a bridge funding, until all pledges are collected, which will allow Chadron State College to start construction on the \$6.4 million dollar Rangeland Center project.

The Foundation will start transferring dollars to Chadron State College for the Athletic Complex renovation and expansion. The Nebraska Legislature approved \$6.7 million dollars towards the project with the condition of a \$2 million dollar match from the College. The

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 12 - SUBSEQUENT EVENTS (CONCLUDED)

Foundation will provide the College with the \$2 million match. Initially the Foundation will provide \$1 million and the College will provide the additional \$1 million until all pledges are collected by the Foundation.

The Foundation has evaluated subsequent events through October 26, 2012, the date which the financial statements were issued.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION

NOTE A- ACCOUNTING POLICIES

The following summary of certain significant accounting policies of Peru State College 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. Certain 2010 items have been reclassified in order to conform to 2011 financial statement presentation.

Reporting Entity

The 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 Directors 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 (FASB) Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements of Not-for-Profit Entities*. Under Codification 958-205, 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 Directors 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 that do not expire. Earnings from permanently restricted net assets are available for scholarships for qualifying students attending the College.

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- 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

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Public Support and Revenues

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 donor restrictions expire, 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.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES - CONTINUED

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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investments, unconditional promises to give, student loans, notes receivable, accounts payable, accrued expenses, and the long-term liabilities approximate fair value.

Cash and Cash Equivalents

The Foundation considers all investments with a maturity of three months or less to be 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, 2011 and 2010. Cash on these dates did not exceed federally insured limits.

Unconditional Promises to Give

Unconditional promises to give are recorded as receivables and revenues when received. The receivables that are due in the next year are reflected as current promises to give and are recorded at their estimated net realized value. The Foundation regularly reviews the listing of unconditional promises to give to determine collectability.

Student Loans Receivable

Student loans receivable are carried at the original loan amount, less any 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, equipment and depreciation

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

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES - CONTINUED

Depreciation and amortization is computed over the estimated useful lives of the assets using the straight-line method. Estimated useful lives of the assets are:

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

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the asset to a specific purpose.

Endowments and Investments

The Foundation's investments in Westwood Management Corp. LLC's are valued at Level 2 of the hierarchy of investment valuation, see Note D. Unrealized gains and losses are included in the statement of activities as a change in unrestricted net assets.

The Foundation pools its investments for greater flexibility in managing those 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 investment 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 the use. The amount of the net appreciation is reported as increases in unrestricted net assets in the statement of activities. Net depreciation in donor-restricted endowments is reimbursed from unrestricted net assets as necessary to replenish the endowment fund to its historic dollar value as established by the Foundation.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of these

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES - CONTINUED

Endowments and Investments - Continued

endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 6.5%, net of management fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments and fixed income investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for scholarships and administration. The current spending policy is to distribute an amount at least equal to 4% of a moving four-year average of the fair value of the endowment funds. Accordingly, over the long-term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 2.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Compensated Absences

Employees of the Foundation are entitled to paid vacation, paid sick, and paid personal time off. Foundation personnel accrue 10 hours of vacation and 8 hours of sick pay per month with a maximum accrual of 35 days vacation and 180 days sick time. The Foundation estimates the amount of compensation for future compensated absences and, accordingly, recognizes the liability as part of accrued compensation in the accompanying financial statements.

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 170(b)(1)(A)(vi). There was no unrelated business income for 2011 and 2010.

The Foundation's federal Exempt Organization Tax Returns (Form 990) for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

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

NOTE C - INVESTMENTS

The Foundation's investments at December 31, 2011, consist of the following:

	Cost	Gross Unrealized Gain/(Loss)	Fair Market Value
Fixed Income Funds:			
Westwood Cash Reserves, LLC	\$ 207,119	\$ -	\$ 207,119
Westwood Core Income, LLC	963,649	243,295	1,206,944
Westwood Total Return, LLC	1,192,873	1,188,296	2,381,169
Equity Funds:			
Westwood Tactical Opportunity, LLC	370,750	126,435	497,185
Westwood Diversified Core Equity, LLC	1,012,184	1,091,946	2,104,130
Westwood Focused Core Equity	1,014,324	154,913	1,169,237
Westwood Diversified Small/Mid Cap Equity,	278,514	235,372	513,886
Westwood Focused Small Cap Equity, LLC	336,872	(42,796)	294,076
Westwood International Equity, LLC	985,478	387,170	1,372,648
	<u>\$ 6,361,763</u>	<u>\$ 3,384,631</u>	<u>\$9,746,394</u>

NEBRASKA STATE COLLEGE SYSTEM
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NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE C – INVESTMENTS (CONTINUED)

The Foundation's investments at December 31, 2010, consist of the following (name changed to Westwood in 2011):

	Cost	Gross Unrealized Gain/(Loss)	Fair Market Value
Fixed Income Funds:			
MGA Cash Reserves, LLC	\$ 169,890	\$ 12,546	\$ 182,436
MGA Core Income, LLC	964,745	233,364	1,198,109
MGA Total Return, LLC	1,211,228	1,111,474	2,322,702
Equity Funds:			
MGA Tactical Opportunity, LLC	321,000	151,109	472,109
MGA Diversified Core Equity, LLC	1,117,432	1,092,284	2,209,716
MGA Focused Core Equity, LLC	1,045,178	121,199	1,166,377
MGA Diversified Small/Mid Cap Equity, LLC	382,707	254,926	637,633
MGA Focused Small Cap Equity, LLC	372,065	(35,870)	336,195
MGA International Equity, LLC	345,978	624,448	970,426
	<u>\$ 5,930,223</u>	<u>\$ 3,565,480</u>	<u>\$ 9,495,703</u>

Investment expense which consists of management fees totaled \$62,877 and \$24,774 for the years ending December 31, 2011 and 2010, respectively.

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

	2011	2010
Fair Value of Endowed Assets	\$ 6,975,322	\$ 7,176,264
Historical Dollar Value of Endowed Assets	(5,500,921)	(5,411,800)
Net Appreciation - Endowed Assets	<u>\$ 1,474,401</u>	<u>\$ 1,764,464</u>

NOTE D - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the 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 FASB ASC 820 are described as follows:

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE D -FAIR VALUE MEASUREMENTS (CONTINUED)

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Foundation has the ability to access at the measurement date.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs 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; and inputs that are derived principally from or corroborated by observable market data.

All the Foundation's investments, see Note C, are considered to be Level 2 investments. The fair value of the Foundation's investments in the Westwood LLC's (formerly MGA, LLC's) is determined by each LLC based on the fair value of the underlying securities held by the LLC. The fair value of the LLC's is determined based on the closing prices of the underlying securities on various actively traded markets. Unit values are determined by dividing the fund's net assets at fair value by the number of units outstanding at the valuation date.

Level 3 - Inputs are unobservable inputs for the asset or liability.

NOTE E –NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2011	2010
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.	177,836	196,818
Less Current Portion of Notes Receivable	19,647	18,982
	\$ 158,189	\$ 177,836

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE E –NOTES RECEIVABLE (CONTINUED)

The aggregate maturities of notes receivable are as follows:

2012	\$	19,647
2013		20,334
2014		21,046
2015		21,783
2016		22,545
Thereafter		72,481
	\$	<u>177,836</u>

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.

NOTE F -REFUNDABLE DEPOSITS

Beginning in 2003, the Bobcat Athletic Association, Peru Booster Club, Peru Student Organization, and Farmer to Farmer Fund had entered into intermediary agreements with the Foundation. Funds are being held in cash accounts by the Foundation as an agent of these organizations to be disbursed at their request. The funds are not owned by the Foundation and 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 \$82,384 and \$82,633 as of December 31, 2011 and 2010, respectively.

NOTE G -GIFT ANNUITIES

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 or quarterly amounts to the donor until the death of the donor. The gift annuity liability of \$112,609 and \$115,438 as of December 31, 2011 and 2010, respectively, represents the present value of the future cash flows expected to be paid to the donors. The annuities payable are discounted at 1.35% (7-year Treasury Bill rate at December 31, 2011) and are due in monthly and quarterly installments.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE G- GIFT ANNUITIES (CONTINUED)

The aggregate maturities of gift annuities for the years ending after December 31, 2011, are as follows:

Years		
2012	\$	35,000
2013		35,476
2014		35,958
2015		6,175
		<hr/>
	\$	112,609
		<hr/> <hr/>

NOTE H- NOTES PAYABLE

The Foundation has a note payable due to Auburn State Bank, which bears interest at a fixed rate of 6.00%, is payable in monthly installments of \$324 including interest and is due July 1, 2014. The Foundation also has a zero interest rate installment note with a company with annual installments of \$833 and due June 2016.

Maturities on these notes are as follows:

Years Ending December 31,	
<hr/> 2012	4,258
2013	4,470
2014	3,086
2015	833
2016	833
	<hr/>
	\$ 13,480
	<hr/> <hr/>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE I -NET ASSETS

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

	2011	2010
Designated for scholarship	\$ 603,620	\$ 605,045
Designated for work stipends	602,210	611,259
Designated for campus improvements	5,500	5,500
	\$ 1,211,330	\$ 1,221,804

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

	2011	2010
Restricted for scholarships	\$ 887,552	\$ 1,108,093
Restricted for education and athletic departments	691,895	774,973
	\$ 1,579,447	\$ 1,883,066

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. Amounts appropriated for scholarships in 2011 and 2010 amounted to \$192,087 and \$117,202, respectively.

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

	2011	2010
Purpose restriction accomplished:		
Scholarships	\$ 304,535	\$ 270,936
Departmental and athletic gifts to College	91,092	50,594
Management fees	14,966	13,695
	\$ 410,593	\$ 335,225

NOTE J –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:

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE J –RELATED PARTY TRANSACTIONS (CONTINUED)

	2011	2010
Salary and Wage Reimbursement	\$ 326,522	\$ 319,411
Gifts	79,344	82,308
Departmental Expense	51,213	17,180
Total	<u>\$ 457,079</u>	<u>\$ 418,899</u>

The Foundation owed the College for salary and wage expenses paid to its employees by the College in the amount of \$71,791 and \$39,423 at December 31, 2011 and 2010, respectively.

NOTE K- 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. The plan covers all employees upon attaining 30 years of age and having two years of college service. Employee contributions are limited to 6% of gross salary. The Foundation reimburses the College for the retirement fund contributions along with the salary reimbursements. The Foundation's contributions to the plan totaled \$17,698 and \$18,942 for the years ended December 31, 2011 and 2010, respectively, and is included in salaries and wages on the statement of functional expenses.

NOTE L- CONCENTRATIONS

During 2011, the Foundation received approximately 75% of its contributions from one estate. During 2010, the Foundation received approximately 72% of its contributions from four individuals and estates.

NOTE M- SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 11, 2012, the date which the financial statements were available to be issued, and has concluded there were no events or transactions occurring between year end and this date that would require recognition or disclosure in the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

WAYNE STATE FOUNDATION

NOTE A - FOUNDATION

The Wayne State Foundation (Foundation) is an independent, non-profit corporation established for the sole purpose of securing private gifts for the benefit and promotion of Wayne State College (College). The Foundation receives contributions from various contributors and provides funding to the College to assist it in fulfilling its mission of educating students. Examples of initiatives funded by the Foundation include scholarships, capital improvements, faculty grants, equipment, and athletic programs. The Foundation funds and publishes, in co-operation with the College, the *Wayne State Magazine* and other communications sent to alumni and friends.

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.

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, 2011 and 2010, from which the summarized information was derived.

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)

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.

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.

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.

Inventory

Inventory consists of WSC Centennial Books produced in conjunction with Wayne State College's centennial year. The inventory is carried at the estimated amount that can be realized from future sales of the books.

Property

Property is recorded at cost or estimated value at the date of purchase or contribution. Additions in excess of \$2,500 are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Assets are being depreciated using the straight-line method with estimated useful lives of 25-40 years. Depreciation expense was \$6,255 for the year ended June 30, 2012.

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

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.

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.

The Foundation files required income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Foundation is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2008. The Foundation has concluded no material uncertain tax positions have been taken on any open tax returns. For the current year the Foundation believes all tax positions are fully supportable by existing Federal law and related interpretations and there are no uncertain tax positions to consider.

Collections

Collections, 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.

Advertising

The Foundation expenses advertising costs as they are incurred. Advertising expenses for the year ended June 30, 2012, was \$10,923.

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, 2012) for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through September 11, 2012, which is the date the financial statements were available to be issued.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE C - CREDIT RISK ARISING FROM CASH DEPOSITS

At times the Foundation may have uninsured bank deposits. At June 30, 2012, the Foundation had bank deposits of \$1,117,008 of which \$48,002 was uninsured.

NOTE D - PROMISES TO GIVE

Unconditional Promises

Unconditional promises are recorded at their net realizable value.

Unconditional promises to give at June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unconditional				
Promises to Give	\$ -	\$ 536,028	\$ 17,943	\$ 553,971
Less Discount to Present Value	-	(39,925)	(1,583)	(41,508)
Less Allowance for Uncollectible Prom.	-	(17,268)	-	(17,268)
Net Unconditional Promises to Give	<u>\$ -</u>	<u>\$ 478,835</u>	<u>\$ 16,360</u>	<u>\$ 495,195</u>

Estimated future cash flows of unconditional promises are as follows:

	Estimated Cash Flows	Discount	Discounted Value
Due 6/30/2012	\$ 113,649	\$ -	\$ 113,649
6/30/2013	218,276	(8,431)	209,845
6/30/2014	107,828	(8,202)	99,626
6/30/2015	22,450	(2,587)	19,863
6/30/2016	13,500	(2,080)	11,420
6/30/2017	6,000	(1,210)	4,790
More than 5 years 6/30/2018-2028	55,000	(18,998)	36,002
	<u>\$ 536,703</u>	<u>\$ (41,508)</u>	<u>\$ 495,195</u>

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 (Cont'd)

The allowance for uncollectible promises represents the unpaid portion of the Phonathon pledges. All other pledges are considered collectible. At June 30, 2012, \$113,649 of other pledges were past due including \$81,983 that were over 90 days past due. Other pledges written off for the fiscal year ended June 30, 2012, 2011, and 2010 were \$13,750, \$30,000, and \$52,600, respectively.

NOTE E - INVESTMENTS

Investments as of June 30, 2012 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money markets	\$ 4,774	\$ 1,140,813	\$ 31,896	\$ 1,177,483
Certificates of Deposits	46,235	201,732	257,301	505,268
Commonfund- Equity Fund	1,048,416	217,777	7,517,375	8,783,568
Commonfund- Bond Fund	503,660	22,807	2,752,957	3,279,424
Subtotal Commonfund	<u>1,552,076</u>	<u>240,584</u>	<u>10,270,332</u>	<u>12,062,992</u>
Other Securities	10,760	89,494	28,169	128,423
Totals	<u>1,613,845</u>	<u>1,672,623</u>	<u>10,587,698</u>	<u>13,874,166</u>
Investments Restricted for annuity contracts:				
Commonfund- Equity Fund	202,403	-	452,130	654,533
Commonfund- Bond Fund	78,619	-	174,183	252,802
Totals	<u>281,022</u>	<u>-</u>	<u>626,313</u>	<u>907,335</u>
Investments held in perpetual trust:				
Money Markets	-	-	2,638	2,638
Bonds and notes	-	-	268,868	268,868
Equities	-	-	496,128	496,128
Totals	<u>-</u>	<u>-</u>	<u>767,634</u>	<u>767,634</u>
Total all investments	<u>\$ 1,894,867</u>	<u>\$ 1,672,623</u>	<u>\$11,981,645</u>	<u>\$ 15,549,135</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE E – INVESTMENTS (Cont’d)

Market Risk from Concentration of Investments with Advisor

At June 30, 2012 the Foundation had investments (including reserved for annuities) with Common fund of \$12,970,327, which represents approximately 83% of investments.

Fair Value Measurement

The Foundation adopted Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820-10-35, “Fair Value Measurement,” effective July 1, 2008. FASB ASC 820-10-35 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, 2012, in valuing the Foundation’s investments:

<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short Term Cash Investments and Certificate of Deposits	\$ 14,383	\$ 1,682,751	\$ -	\$ 1,697,134
U.S. Equity	491,376	7,833,624	-	8,325,000
International Equity	105,793	1,226,953	-	1,332,746
Emerging Markets Equity	13,300	377,524	-	390,824
Fixed Income	271,205	3,532,226	-	3,803,431
Total	\$ 896,057	\$ 14,653,078	\$ -	\$ 15,549,135

The Foundation did not hold other financial instruments as of June 30, 2012.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE E - INVESTMENTS (cont'd)

Investments Held in Perpetual Trust

The Foundation is the beneficiary of a perpetual trust. First National Bank - Omaha is the trustee. The trustee may be changed only due to investment performance.

Investment Management Fees

Investment management fees have been deducted from investment income.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Management Fees	\$ 6,005	\$ 35,398	\$ 8,129	\$ 49,532

NOTE F - PROPERTY

During the year ended June 30, 2012, the Foundation received contributed property which had a life estate attached to it. As of June 30, 2012, the beneficiary was still living in the house; therefore, it is not being depreciated.

	Bressler Alumni House	1308 Main	Cunningham Condo	Total
Land	\$ 20,000	\$ 39,500	\$ -	\$ 59,500
Building	134,417	81,000	80,000	295,417
Subtotal	154,417	120,500	80,000	354,917
Accumulated Depreciation	(47,554)	(12,900)	-	(60,454)
Net 6-30-12	<u>\$ 106,863</u>	<u>\$ 107,600</u>	<u>\$ 80,000</u>	<u>\$ 294,463</u>
Depreciation Exp. FYE 6-30-12	<u>\$ 3,555</u>	<u>\$ 2,700</u>	<u>\$ -</u>	<u>\$ 6,255</u>

NOTE G - 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:

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE G - LIFE INSURANCE - CASH VALUE (Cont'd)

	Policy Amount	6/30/12 Cash Value	6/30/11 Cash Value	6/30/10 Cash Value
Unrestricted	\$ 375,460	\$ 62,366	\$ 59,860	\$ 181,936
Temporarily Restricted	37,500	3,629	3,268	3,484
Permanently Restricted	273,149	11,060	9,481	8,572
Totals	\$ 686,109	\$ 77,055	\$ 72,609	\$ 193,992

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.

Annuity assets and liabilities as of June 30, 2012, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Investments restricted for annuity contracts	\$ 281,022	\$ 626,313	\$ 907,335
Annuities Payable	\$ 125,773	\$ 359,339	\$ 485,112

NOTE I - UNRESTRICTED NET ASSETS

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

Board Designated:	
Quasi-Endowment	\$ 226,614
Total board designated	\$ 226,614

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2012:

Program Activities:		
Scholarships and Grants	\$	793,234
Improvements		830,917
College Departments		490,425
SSC College Center (see Note S)		272,717
Time Only Restriction (Unrestricted receivables)		53,985
Other Designated Programs		14,574
Total Temporarily Restricted Net Assets	\$	<u>2,455,852</u>

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 - ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 302 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

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE L - ENDOWMENT FUNDS (cont'd)

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.

Endowment Net Asset Composition by Type of Fund as June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowment Funds	\$ (59,870)	\$ 621,240	\$ 10,630,769	\$ 11,192,139
Board-designated Endowment Funds	226,614	-	-	226,614
Total Funds	<u>\$ 166,744</u>	<u>\$ 621,240</u>	<u>\$ 10,630,769</u>	<u>\$ 11,418,753</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beg. of Year	\$ 197,604	\$ 946,801	\$ 10,138,215	\$ 11,282,620
Contributions	-	-	492,554	492,554
Net Investment Income	4,259	179,673	-	183,932
Net Appreciation (Depreciation)	(35,119)	(107,181)	-	(142,300)
Amounts Appropriated for Expenditure	-	(398,053)	-	(398,053)
Endowment Net Assets, End of Year	<u>\$ 166,744</u>	<u>\$ 621,240</u>	10,630,769	<u>\$ 11,418,753</u>

Other permanently restricted net assets:

Interest in Robert Cunningham Perpetual Trust	767,634
Real estate restricted for use towards Cunningham Scholarship	40,000
Cash Value of Life Insurance to Fund Permanently Restricted Endowment Funds	11,060
Charitable Gift Annuity Net Assets to Fund Permanently Restricted Endowments at a Future Date	266,974
Promises to Fund Permanently Restricted Endowment Funds	<u>16,360</u>
Total Permanently Restricted Net Assets	<u>\$ 11,732,797</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE L - 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 generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$59,870 as of June 30, 2012. 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)

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

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 \$143,715, \$148,218, and \$136,882 for the years ended June 30, 2012, 2011 and 2010, respectively. The amounts have 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 are \$18,664, \$18,079 and \$17,535 for the years ended June 30, 2012, 2011, and 2010, respectively.

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

The costs of vacation pay and sick pay are accrued. Up to 25% of accumulated sick pay is payable upon retirement or death. Total accumulated sick pay at June 30, 2012, was \$87,811 and the accrual was \$21,953. Accumulated vacation is payable upon termination and at June 30, 2012, was \$14,765.

NOTE Q - COMMITMENTS

In January 2010, the Foundation entered into a collaborative agreement with the Board of Trustees of the Nebraska State College System to engage in cooperative practices and exchange benefits for the betterment of Wayne State College. Nothing in this Agreement shall be interpreted to supersede the articles and by-laws of the Wayne State Foundation. The Foundation has agreed to establish an annual expense account of no less than \$1,500 for the Chancellor to be used for activities in support of the College. The President of Wayne State College will be provided with an automobile and an annual expense account of no less than \$10,000, to help cover the President's spouse's activities supporting the College. The Foundation shall provide one-third of the payments in support of the NSCS's Senator's reception. The Foundation shall provide to the NSCS the \$3,000 to fund the annual NSCS Teaching Excellence Award when the recipient is a faculty member of Wayne State College.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE Q – COMMITMENTS (cont'd)

On January 27, 2010, Wayne State Foundation approved the concept and estimated budget to repair and restore the Willow Bowl on Wayne State College's Campus. The project will be financed in full by the Wayne State Foundation. The estimated project cost is \$896,659. Construction began on this project in May 2012 and is expected to be completed within a year. As of June 30, 2012, \$148,365 had been paid towards the project. The Foundation has gifts and pledges of \$896,659 which includes receivables of \$81,960.

Wayne State College entered into a contract with Beckenhauer Construction, Inc. to complete the Carhart Renovation, Phase II in May 2011. Wayne State Foundation has agreed to pay \$1,321,216 towards the project. As of June 30, 2012, \$1,034,901 had been paid.

NOTE R - RELATED PARTIES

For the year ended June 30, 2012, the Foundation made payments to Wayne State College of \$3,230,691 and had an outstanding balance due of \$127,124, which consisted of \$1,725,166 for scholarships, stipends, and tuition assistance; \$1,058,401 for capital improvements for the Baseball/Softball Facilities, Athletic Facility Renovation, Carhart Science Building Renovation, Campus Beautification, Willow Bowl Renovation, and Commons; \$107,317 for Athletics programs budget transfers and programs; \$309,187 for staff salaries and Phonathon wages; and \$30,620 for other expenses. Additional payments were made to vendors and individuals for support of Wayne State College.

The Foundation had cash and CD's totaling \$298,002, as of June 30, 2012, at State National Bank, where one of their board members is a chairman.

The Foundation had cash and CD's totaling \$239,942, as of June 30, 2012, at First National Bank of Wayne, where one of their board members is president.

The Foundation had cash and CD's totaling \$150,000, as of June 30, 2012, at Siouxland National Bank, where one of their board members is president.

The Foundation had CD's and investments totaling \$1,274,938, as of June 30, 2012, at Edward Jones, where one of their board members is a partner.

The Foundation had various transactions for the year ended June 30, 2012, with the Diamond Center and Flowers & Wine totaling \$7,549. The owner of the two businesses is a board member of the Foundation.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

WAYNE STATE FOUNDATION (CONTINUED)

NOTE R - RELATED PARTIES (Cont'd)

The Foundation leased a car from Arnies' Ford Mercury where one of their board members is an employee. Total payments for the year ended June 30, 2012, were \$6,314.

The Foundation purchased Business and Property Insurance from Northeast Nebraska Insurance, during the year ended June 30, 2012, for \$3,613. One of the board members for the Foundation is an employee of this business.

Board members and employees may pledge amounts to the Foundation for various projects and campaigns for support. At June 30, 2012, the outstanding pledge balances was \$89,306.

NOTE S - SSC COLLEGE CENTER

Wayne State College and Northeast Community College have 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 programs, they have constructed a building, which is referred to as the College Center. The College Center is located at 1001 College Way in South Sioux City on 57 acres donated by the South Sioux City Community Development Agency. It has a total of 39,000 sq. ft. on two floors. The building cost an estimated \$8.7 million. A grand opening was held on April 20, 2011.

To supplement the state and federal funding, a private fund raising campaign was conducted and approximately \$1.4 million was secured for the project. The project also received an approximate \$500,000 award from the federal government.

The Foundation's contribution revenue for the fiscal year for the College Center included \$7,000 of outright gifts and no new pledges. Pledges receivable at June 30, 2012, included in the temporarily restricted balance, amounted to \$276,450 with a net present value of \$267,146.

NOTE T - PRIOR PERIOD ADJUSTMENT

The amounts on the June 30, 2011, financial statements have been restated to include the amounts for accrued vacation and sick pay. This caused an increase in prior year payables and decrease in unrestricted net assets of \$28,116, leaving a final balance in the unrestricted net assets account of \$2,115,112.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET ASSETS

June 30, 2012

	Chadron	Peru	Wayne	Board of Trustees	TOTAL
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 8,506,706	\$ 2,833,462	\$ 12,810,333	\$ 701,959	\$ 24,852,460
Restricted Cash and Cash Equivalents	694,396	3,742,950	6,768,984	9,060,757	20,267,087
Accounts Receivable, Net of Allowance	525,654	678,668	235,097	24,597	1,464,016
State Grants and Appropriations Receivable	14,558	383,743	14,838	203,672	616,811
Other Receivables	158,122	38,225	139,521	13,875	349,743
Inventories	12,204	53,466	46,737	-	112,407
Loans to Students, Net	154,028	-	241,728	-	395,756
Prepaid Expenses	145,533	158,148	218,647	18,576	540,904
Deposits with Vendors	-	-	1,510	17,038	18,548
Total Current Assets	<u>10,211,201</u>	<u>7,888,662</u>	<u>20,477,395</u>	<u>10,040,474</u>	<u>48,617,732</u>
Non-current Assets					
Restricted Cash and Cash Equivalents	3,806,137	2,638,147	12,642,443	-	19,086,727
Investment Income Receivable	-	2,629	-	-	2,629
Loans to Students, Net	1,030,805	-	1,005,517	-	2,036,322
Capital Assets, Net	33,165,530	41,051,132	77,943,246	6,775,092	158,935,000
Deferred Bond Issue Costs, Net	86,968	74,077	187,412	292,902	641,359
Other Non-current Assets	-	-	126,915	-	126,915
Total Non-current Assets	<u>38,089,440</u>	<u>43,765,985</u>	<u>91,905,533</u>	<u>7,067,994</u>	<u>180,828,952</u>
Total Assets	<u>48,300,641</u>	<u>51,654,647</u>	<u>112,382,928</u>	<u>17,108,468</u>	<u>229,446,684</u>
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,976,504	1,299,481	2,829,675	1,096,499	7,202,159
Accrued Compensated Absences	105,067	80,768	172,270	16,091	374,196
Other Liabilities	102,835	-	-	-	102,835
Deferred Revenue	145,935	32,166	-	-	178,101
Interest Payable	117,811	134,849	238,182	343,305	834,147
Long-Term Debt	200,000	2,915,334	6,515,000	1,575,000	11,205,334
Deposits Held in Custody for Others	3,614	89,248	29,248	-	122,110
Total Current Liabilities	<u>2,651,766</u>	<u>4,551,846</u>	<u>9,784,375</u>	<u>3,030,895</u>	<u>20,018,882</u>
Non-current Liabilities					
Accrued Compensated Absences	1,018,220	605,770	1,310,356	213,788	3,148,134
Unamortized Bond Premium	-	-	-	170,663	170,663
Long-Term Debt	4,695,000	6,307,855	11,480,000	15,440,000	37,922,855
Total Non-current Liabilities	<u>5,713,220</u>	<u>6,913,625</u>	<u>12,790,356</u>	<u>15,824,451</u>	<u>41,241,652</u>
Total Liabilities	<u>8,364,986</u>	<u>11,465,471</u>	<u>22,574,731</u>	<u>18,855,346</u>	<u>61,260,534</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	28,357,498	31,902,020	60,135,658	6,775,092	127,170,268
Restricted for:					
Expendable:					
Loans	1,185,898	-	1,419,699	-	2,605,597
Debt Service	1,847,009	4,935,697	19,205,879	2,291,782	28,280,367
Plant	-	-	-	4,162,874	4,162,874
Other	237,965	610,600	348,016	1,827,276	3,023,857
Unrestricted	8,307,285	2,740,859	8,698,945	(16,803,902)	2,943,187
Total Net Assets	<u>\$ 39,935,655</u>	<u>\$ 40,189,176</u>	<u>\$ 89,808,197</u>	<u>\$ (1,746,878)</u>	<u>\$ 168,186,150</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, 2012

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Operating Revenues					
Tuition and Fees, Net of Scholarship					
Allowances and Institutional Waivers	\$ 7,378,108	\$ 5,550,827	\$ 11,597,506	\$ -	\$ 24,526,441
Federal Grants and Contracts	5,031,846	3,186,907	5,540,057	-	13,758,810
State Grants and Contracts	252,175	902,096	510,199	-	1,664,470
Private Grants and Contracts	848,751	516,535	539,080	-	1,904,366
Auxiliary Enterprises, Net of Scholarship					
Allowances and Institutional Waivers	5,911,508	2,536,556	7,577,162	-	16,025,226
Other Operating Revenues	6,465	171,371	23,273	-	201,109
Total Operating Revenues	<u>19,428,853</u>	<u>12,864,292</u>	<u>25,787,277</u>	<u>-</u>	<u>58,080,422</u>
Operating Expenses					
Compensation and Benefits	19,232,991	12,068,965	26,588,756	1,086,462	58,977,174
Contractual Services	878,261	826,990	1,453,436	596,413	3,755,100
Supplies and Materials	3,957,092	3,535,889	4,689,933	8,876	12,191,790
Scholarships and Fellowships	1,787,414	1,931,890	1,898,465	-	5,617,769
Depreciation	1,520,748	1,292,348	2,910,637	880,331	6,604,064
Utilities	1,308,347	729,354	1,722,303	-	3,760,004
Repairs and Maintenance	563,710	1,155,969	133,346	-	1,853,025
Communications	290,529	216,274	229,139	21,782	757,724
Food Service	1,765,717	1,083,010	2,339,708	-	5,188,435
Other	1,830,510	150,241	60,667	250,408	2,291,826
Total Operating Expenses	<u>33,135,319</u>	<u>22,990,930</u>	<u>42,026,390</u>	<u>2,844,272</u>	<u>100,996,911</u>
Operating Loss	<u>(13,706,466)</u>	<u>(10,126,638)</u>	<u>(16,239,113)</u>	<u>(2,844,272)</u>	<u>(42,916,489)</u>
Non-operating Revenue (Expenses)					
State Appropriations	15,495,506	8,500,699	19,502,456	1,349,880	44,848,541
Investment Income	241,484	151,320	634,107	187,408	1,214,319
Interest on Capital Asset-Related Debt	(35,003)	(267,714)	(507,307)	(742,804)	(1,552,828)
Gain (Loss) on Disposal of Asset	(2,922)	7,253	-	-	4,331
Other Non-operating Revenue (Expense)	(187,099)	(4,943)	(42,429)	(41,754)	(276,225)
Net Non-operating Revenues (Expenses)	<u>15,511,966</u>	<u>8,386,615</u>	<u>19,586,827</u>	<u>752,730</u>	<u>44,238,138</u>
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	<u>1,805,500</u>	<u>(1,740,023)</u>	<u>3,347,714</u>	<u>(2,091,542)</u>	<u>1,321,649</u>
Other Revenues, Expenses, or Gains (Losses)					
Capital Facilities Fees	-	-	-	2,028,068	2,028,068
Capital Contributions	-	-	1,026,070	-	1,026,070
Operating Transfers In (Out)	(256,291)	(195,097)	(399,063)	850,451	-
Capital Appropriations and Grants	420,037	232,451	3,828,148	1,125,000	5,605,636
Net Other Revenues, Expenses, or Gains (Losses)	<u>163,746</u>	<u>37,354</u>	<u>4,455,155</u>	<u>4,003,519</u>	<u>8,659,774</u>
Increase in Net Assets	1,969,246	(1,702,669)	7,802,869	1,911,977	9,981,423
Net Assets, Beginning of Year	<u>37,966,409</u>	<u>41,891,845</u>	<u>82,005,328</u>	<u>(3,658,855)</u>	<u>158,204,727</u>
Net Assets, End of Year	<u>\$ 39,935,655</u>	<u>\$ 40,189,176</u>	<u>\$ 89,808,197</u>	<u>\$ (1,746,878)</u>	<u>\$ 168,186,150</u>

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

COMBINING SCHEDULE OF CASH FLOWS

Fiscal Year Ended June 30, 2012

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
Cash Flows From Operating Activities					
Tuition and Fees	\$ 7,259,375	\$ 5,449,669	\$ 11,570,575	\$ -	\$ 24,279,619
Grants and Contracts	6,132,772	4,605,538	6,589,336	-	17,327,646
Payments to Suppliers	(8,999,836)	(7,053,284)	(8,728,539)	(1,069,749)	(25,851,408)
Payments for Utilities	(1,302,138)	(729,354)	(1,722,303)	-	(3,753,795)
Payments to Employees	(19,251,342)	(12,065,221)	(26,596,953)	(1,031,953)	(58,945,469)
Loans Issued to Students	(217,057)	-	(233,820)	-	(450,877)
Collections of Loans to Students	186,871	-	217,884	-	404,755
Sales and Services of Auxiliary Enterprises	5,896,714	2,521,416	7,527,665	-	15,945,795
Other Payments	(1,780,949)	(1,747,270)	(1,935,859)	(15,000)	(5,479,078)
	<u>(12,075,590)</u>	<u>(9,018,506)</u>	<u>(13,312,014)</u>	<u>(2,116,702)</u>	<u>(36,522,812)</u>
Net Cash Used in Operating Activities					
Cash Flows From Non-capital Financing Activities					
State Appropriations	15,480,948	8,235,949	19,497,640	1,248,411	44,462,948
Grants and Contracts	-	14,724	(43,462)	-	(28,738)
Direct Lending Receipts	9,966,409	8,254,825	13,450,094	-	31,671,328
Direct Lending Payments	(9,966,409)	(8,254,825)	(13,450,094)	-	(31,671,328)
Other Receipts (Payments)	(187,099)	(31,507)	(42,429)	(41,754)	(302,789)
	<u>15,293,849</u>	<u>8,219,166</u>	<u>19,411,749</u>	<u>1,206,657</u>	<u>44,131,421</u>
Net Cash Provided by Non-capital Financing Activities					
Cash Flows From Capital and Related Financing Activities					
Proceeds from Capital Debt	-	2,705,000	6,045,000	-	8,750,000
Capital Contributions	-	-	1,026,070	-	1,026,070
Purchase of Capital Assets	(1,767,212)	(4,289,651)	(13,623,337)	-	(19,680,200)
Disposal of Capital Assets	(2,922)	7,254	-	-	4,332
Principal Paid on Capital Debt	(235,000)	(140,334)	(635,000)	(1,515,000)	(2,525,334)
Interest Paid on Capital Debt	(26,847)	(307,380)	(621,346)	(791,458)	(1,747,031)
Capital Facilities Fees	-	-	-	2,020,486	2,020,486
Transfers In (Out)	(256,291)	(195,097)	(399,063)	850,451	-
Other	15,712	26,564	(126,915)	36,423	(48,216)
Capital Appropriations	420,037	232,451	3,828,148	1,125,000	5,605,636
	<u>(1,852,523)</u>	<u>(1,961,193)</u>	<u>(4,506,443)</u>	<u>1,725,902</u>	<u>(6,594,257)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities					
Cash Flows From Investing Activities					
Purchase/Sale of Investments	-	-	-	330,188	330,188
Investment Income	241,484	151,320	634,107	173,547	1,200,458
	<u>241,484</u>	<u>151,320</u>	<u>634,107</u>	<u>503,735</u>	<u>1,530,646</u>
Net Cash Provided by Investing Activities					
Increase (Decrease) in Cash and Cash Equivalents	1,607,220	(2,609,213)	2,227,399	1,319,592	2,544,998
Cash and Cash Equivalents, Beginning of Year	11,400,019	11,823,772	29,994,361	8,443,124	61,661,276
Cash and Cash Equivalents, End of Year	<u>\$ 13,007,239</u>	<u>\$ 9,214,559</u>	<u>\$ 32,221,760</u>	<u>\$ 9,762,716</u>	<u>\$ 64,206,274</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and Cash Equivalents	\$ 8,506,706	\$ 2,833,462	\$ 12,810,333	\$ 701,959	\$ 24,852,460
Restricted Cash and Cash Equivalents - Current	694,396	3,742,950	6,768,984	9,060,757	20,267,087
Restricted Cash and Cash Equivalents - Non-current	3,806,137	2,638,147	12,642,443	-	19,086,727
	<u>\$ 13,007,239</u>	<u>\$ 9,214,559</u>	<u>\$ 32,221,760</u>	<u>\$ 9,762,716</u>	<u>\$ 64,206,274</u>
Total Cash and Cash Equivalents					

(Continued)

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

COMBINING SCHEDULE OF CASH FLOWS

Fiscal Year Ended June 30, 2012

	<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	\$ (13,706,466)	\$ (10,126,638)	\$ (16,239,113)	\$ (2,844,272)	\$ (42,916,489)
Depreciation Expense	1,520,748	1,292,348	2,910,637	880,331	6,604,064
Changes in Operating Assets and Liabilities					
Receivables, Net	(77,447)	(101,637)	(29,087)	11,601	(196,570)
Inventories	(4,069)	10,354	14,602	-	20,887
Prepays and Other	-	-	-	(4,346)	(4,346)
Accounts Payable and Accrued Liabilities	159,399	(61,012)	205,141	(195,560)	107,968
Accrued Compensated Absences	12,522	3,744	(8,197)	35,544	43,613
Other Assets and Liabilities	19,723	(35,665)	(165,997)	-	(181,939)
Net Cash Used in Operating Activities	<u><u>\$ (12,075,590)</u></u>	<u><u>\$ (9,018,506)</u></u>	<u><u>\$ (13,312,014)</u></u>	<u><u>\$ (2,116,702)</u></u>	<u><u>\$ (36,522,812)</u></u>
Supplemental Cash Flows Information					
Accounts Payable Incurred for Capital Asset Purchases	\$ 99,558	\$ 422,283	\$ 41,088	\$ -	\$ 562,929

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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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 financial statements of the business-type activities and the 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, 2012, which collectively comprise the Nebraska State College System's basic financial statements and have issued our report thereon dated December 21, 2012. Our report includes 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 these entities were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting

Management of the Nebraska State College System is responsible for establishing and maintaining effective 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 NSCS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NSCS's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NSCS'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 also noted certain matters that we reported to management of the NSCS in a separate letter dated December 21, 2012.

This report is intended solely for the information and use of management, Board of Trustees of the Nebraska State College System, others within the NSCS, 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, 2012

Don Dunlap, CPA
Assistant Deputy Auditor