

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

JULY 1, 2013, THROUGH JUNE 30, 2014

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Issued on December 15, 2014

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

TABLE OF CONTENTS

	<u>Pages</u>
Financial Section	
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis – Unaudited	4 - 11
Basic Financial Statements:	
Statement of Net Position – Nebraska State College System – Primary Government	12 - 13
Statement of Financial Position – Nebraska State College System Component Units – Foundations:	
Chadron State Foundation	14
Peru State Foundation	15
Wayne State Foundation	16
Statement of Revenues, Expenses, and Changes in Net Position – Nebraska State College System – Primary Government	17 - 18
Statement of Activities – Nebraska State College System Component Units – Foundations:	
Chadron State Foundation	19
Peru State Foundation	20
Wayne State Foundation	21
Statement of Cash Flows – Nebraska State College System – Primary Government	22 - 23
Statement of Cash Flows – Nebraska State College System Component Units – Foundations:	
Chadron State Foundation	24
Peru State Foundation	25
Wayne State Foundation	26
Notes to Financial Statements – Nebraska State College System (Including Foundation Notes to Financial Statements)	27 - 91
Supplementary Information:	
Combining Schedules – Nebraska State College System:	
Combining Schedule of Net Position	92
Combining Schedule of Revenues, Expenses, and Changes in Net Position	93
Combining Schedule of Cash Flows	94 - 95
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	96 - 97



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the Nebraska State College System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accompanying financial statements of Chadron State, Peru State, and Wayne State Foundations (Foundations), discretely presented component units of the NSCS, as of and for the years ended June 30, 2014, December 31, 2013, and June 30, 2014, respectively. 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 Colleges Facilities Corporation, a blended component unit of the NSCS, and the activity of the Nebraska State College System Revenue and Refunding Bond Program, as of and for the year ended June 30, 2014, which represent 35 percent, 82 percent, and 22 percent, respectively, of the assets, liabilities, and revenues of the primary government. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, the Nebraska State College System Revenue and Refunding Bond Program, and the Nebraska State Colleges Facilities Corporation, is based solely on the report 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 from material misstatement. The financial statements of the Foundations, Revenue and Refunding Bond Program, and the Facilities Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the NSCS, as of June 30, 2014, and December 31, 2013, (Peru State Foundation) and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the NSCS has elected to change its method of accounting for capital assets by changing the capitalization thresholds and the estimated useful lives assigned to certain capital assets included within the NSCS's capital asset categories in fiscal year ended June 30, 2014. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in fiscal year ended June 30, 2014, the NSCS adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the fiscal year ended June 30, 2013, financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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, which 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 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions 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.

The Combining Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 above, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of the NSCS'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NSCS's internal control over financial reporting and compliance.

Lincoln, Nebraska
December 8, 2014



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, 2014. 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 Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; 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 Position presents information on all of the NSCS's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these elements reported as net position. Over time, increases or decreases in net position 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 Position presents information showing how the NSCS's net position changed during the most recent fiscal year. All changes in net position 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 provides 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, 2014, includes information on the Nebraska State Colleges Facilities Corporation (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 Board of Directors of the Corporation. Outstanding bonds issued by the Corporation are those authorized under LB 605, passed in 2006, and LB 198, passed in 2013. Repayment is from legislative appropriations and student fees. The long-term debt of the 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.

Condensed statements are presented below for the NSCS for the years ended June 30, 2014, and 2013. The 2013 information has not been restated for the implementation of GASB 65 or for previous accounting errors. For more information on GASB 65 implementation and previous accounting errors, see Note 1.

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

	Primary Government	
	2014	2013
Current Assets	\$ 47,574,589	\$ 44,933,599
Non-current Assets		
Capital Assets, Net	182,559,821	167,059,343
Other Non-current Assets	32,831,928	26,818,663
Total Assets	262,966,338	238,811,605
 Deferred Outflow of Resources	 51,070	 -
 Current Liabilities	 16,922,742	 13,350,380
Non-current Liabilities	57,555,464	46,328,033
Total Liabilities	74,478,206	59,678,413
 Net Position		
Net Investment in Capital Assets	139,705,523	121,479,570
Restricted	26,620,443	34,901,927
Unrestricted	22,213,236	22,751,695
Total Net Position	\$ 188,539,202	\$ 179,133,192

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 Position For Year Ended June 30**

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Tuition and Fees, Net	\$ 26,262,399	\$ 25,841,195
Federal and State Grants and Contracts	14,468,359	14,410,832
Private Grants and Contracts	1,894,341	2,151,578
Auxiliary Enterprises, Net	17,709,618	16,989,768
Other Operating Revenues	1,211,641	295,536
Total Operating Revenues	61,546,358	59,688,909
Operating Expenses	110,477,487	105,866,375
Operating Loss	(48,931,129)	(46,177,466)
Non-operating Revenues (Expenses)		
State Appropriations	49,756,052	46,144,042
Investment Income	983,886	1,200,892
Interest on Capital Asset-Related Debt	(1,173,548)	(1,189,345)
Loss on Disposal of Asset	(7,351,929)	(14,396)
Bond Issuance Costs	(234,051)	-
Other Non-operating (Expenses)	(44,928)	435,982
Net Non-operating Revenues	41,935,482	46,577,175
Income (Loss) before Other Revenues, Expenses, Or Gains (Losses)	(6,995,647)	399,709
Other Revenues, Expenses, or Gains (Losses)		
Capital Appropriations and Grants	13,569,770	6,669,239
Capital Contributions	1,436,633	1,793,136
Capital Facilities Fee	2,086,875	2,084,958
Net Other Revenues, Expenses, or Gains (Losses)	17,093,278	10,547,333
Increase in Net Position	10,097,631	10,947,042
Net Position, Beginning of Year	179,133,192	168,186,150
Prior Period Adjustment	(691,621)	-
Net Position, Beginning of Year as Restated	178,441,571	168,186,150
Net Position, End of Year	\$ 188,539,202	\$ 179,133,192

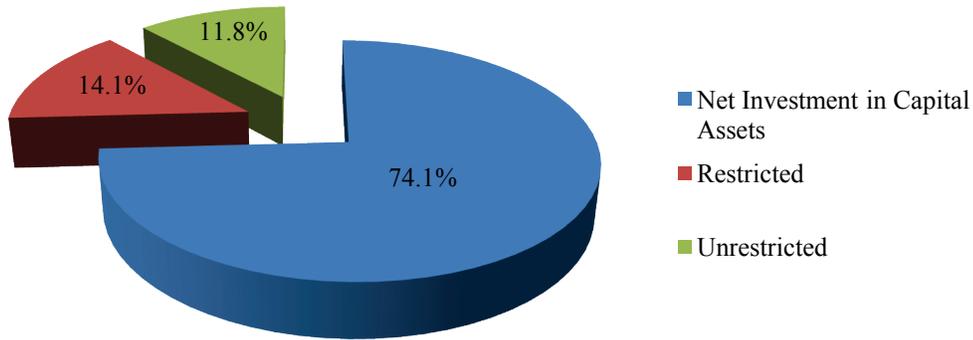
NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

CHANGES IN NET POSITION

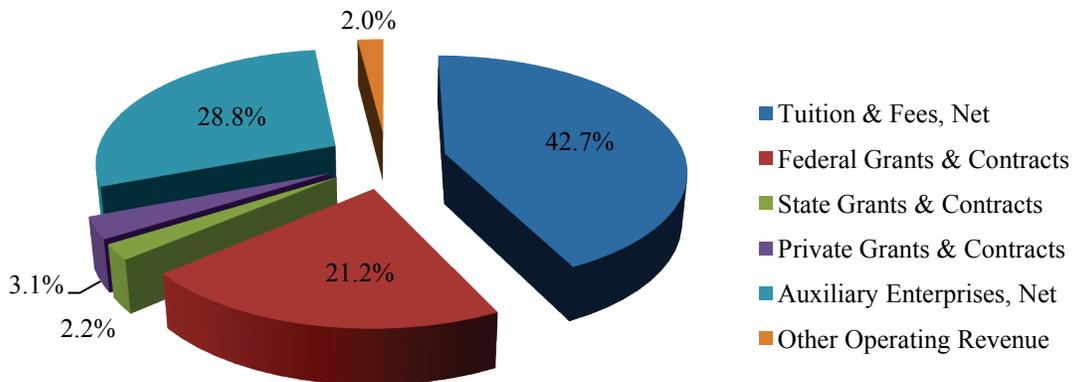
At June 30, 2014, the NSCS had a net position of \$188.5 million, an increase of \$9.6 million or 5.4% over 2013. Net position was comprised of unrestricted – \$22.2 million; restricted – \$26.6 million; and net investment in capital assets – \$139.7 million.

Net Position



The operating revenues were \$61.5 million, compared to \$59.3 million in 2013, a 3.7% increase. Operating revenues include \$26.3 million in net tuition and fees, Federal grants and contracts of \$13.0 million, State grants and contracts of \$1.4 million, private grants and contracts of \$1.9 million, net auxiliary enterprises of \$17.7 million, and other operating revenues of \$1.2 million.

Operating Revenues

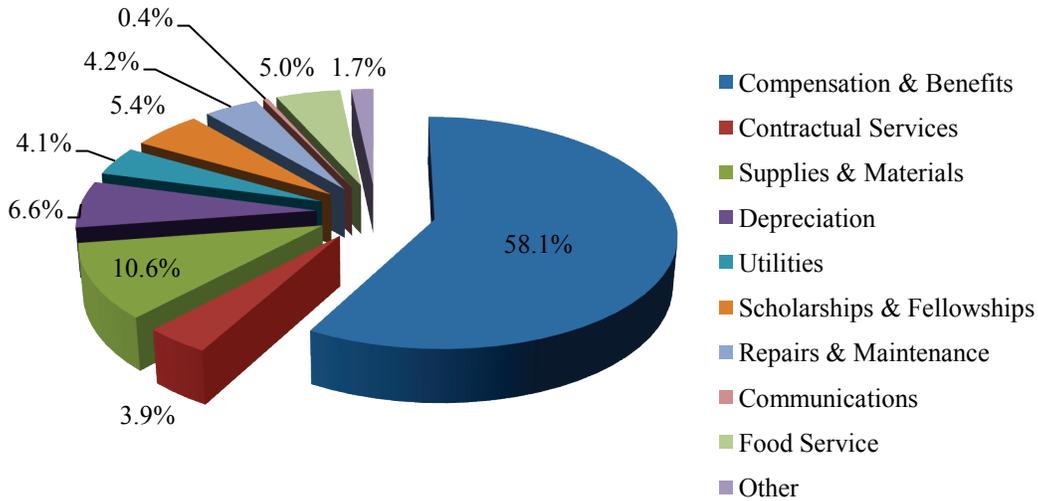


NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

Operating expenses for the year ended June 30, 2014, amounted to \$110.5 million, compared to \$105.8 million in 2013. Compensation and benefits accounted for \$64.2 million, or 58.1% of the total; contractual services were \$4.3 million; supplies and materials, \$11.7 million; depreciation, \$7.3 million; and utilities, \$4.5 million. Other operating expenses consisted of scholarships and fellowships, \$6.0 million; repairs and maintenance, \$4.6 million; communications, \$0.5 million, food service, \$5.6 million; and other operating expenses, \$1.8 million.

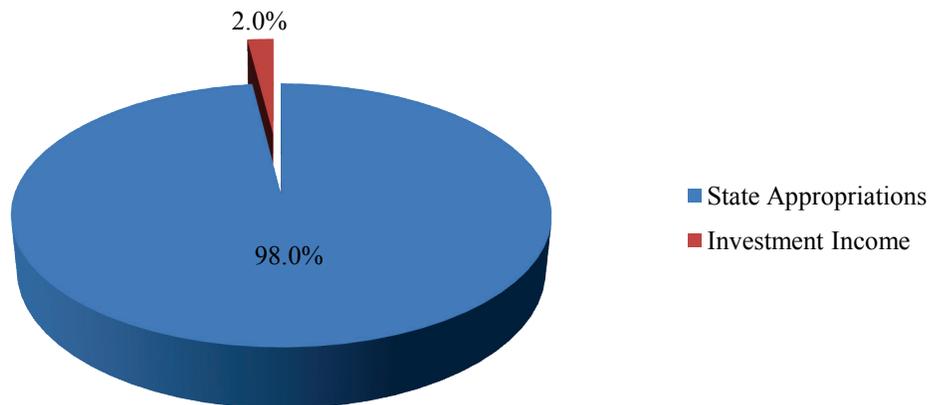
Operating Expenses



The current year operating loss amounted to \$48.9 million, compared to an operating loss in 2013 of \$46.5 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 position from the fiscal year ended June 30, 2013, to the fiscal year ended June 30, 2014, was an increase in both current restricted cash and cash equivalents and the current portion of long-term debt. The increase in these two accounts was due to two bond issuances during the fiscal year. The schedule of net position also had an increase in net capital assets of \$14.3 million, most of which is related to Armstrong renovation, Eagle Ridge construction, and Rangeland Center construction at CSC; U.S. Conn Library renovation, field turf/track resurfacing, and soccer field expansion at WSC; and renovations of T.J. Majors and Oak Bowl at PSC.

Tuition and fee income increased \$0.4 million or 1.7%, and auxiliary enterprise revenues increased \$1.0 million, or 6.3% from the prior fiscal year. Federal, State, and private grants and contracts had a reduction of \$0.2 million or 1.2%.

Non-operating revenues reflect a \$3.6 million or 7.8% increase in expenditure of State appropriations and a 15.6% decrease in investment income.

Operating expenses for the year ended June 30, 2014, increased by \$4.6 million or 4.4%. Within the operating expenses category, compensation and benefits increased approximately \$2.4 million, utilities increased \$0.6 million, repairs and maintenance increased \$1.5 million, and other operating expenses decreased \$0.7 million. Health insurance premiums increased slightly in 2013-2014, with the overall composite rates for medical and dental insurance increasing 6.4%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2014, the NSCS had recorded \$268.5 million in gross capital assets. During the fiscal year ended June 30, 2014, the investment in buildings and improvements increased by \$4.2 million; furniture, fixtures, and equipment increased by \$0.3 million; infrastructure increased by \$1.5 million; and construction in progress increased by \$22.8 million. Policy changes on capitalization thresholds removed \$7.4 million in net capital assets during the fiscal year. At the end of the fiscal year, the NSCS had \$85.9 million in accumulated depreciation that left \$182.6 million in net capital assets.

At the end of the fiscal year, the NSCS had \$62.2 million in long-term liabilities. These consisted primarily of outstanding indebtedness of \$55.3 million, \$3.7 million in accrued compensated absences, and \$1.5 million in unearned revenue. Additional debt of \$17.7 million was issued, and previously existing bond obligations were reduced by \$8.1 million. The bond obligation reduction amount included \$4.5 million from the current refunding and \$0.8 million from the debt extinguishment of Series 2003 debt. CSC's portion of the Series 2003 bonds was defeased on June 5, 2014, using proceeds from Series 2014, which were issued in June 2014. WSC's portion of the Series 2003 bonds was also extinguished on June 5, 2014.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

(Continued)

Several construction projects have been completed at the Colleges, including Phase I of the CSC Rangeland Center. The WSC soccer field expansion and the WSC field turf/track resurfacing were also close to substantial completion at June 30. Projects were completed using College cash funds, Foundation funds, and private funds. Renovation and construction was also in progress for several projects, including the CSC Rangeland Center Phase II, the CSC Armstrong/Chicoine Event Center complex, the CSC Eagle Ridge Student Housing project, the WSC U.S. Conn Library renovation and addition, the PSC Oak Bowl renovation, and the PSC T.J. Majors HVAC upgrade project. These projects are being funded through various sources including: State appropriations, the LB 309 building renewal task force, College cash funds, revenue bond funds, and/or privately raised funds. Planning was in the process for the Park Avenue Campus Entrance project at PSC and the Math/Science renovation at CSC.

All projects using bond proceeds from LB 605 have been completed. At the September 6, 2013, Board of Directors meeting, the Corporation Board closed out LB 605 projects by adjusting authorized projects amounts by any unspent allocations. In May 2013, the Legislature approved and the Governor signed LB 198, which provides General Fund appropriations of \$2,216,000 for 2013-2014 and 2014-2015 and the intent to provide this amount annually through fiscal year June 30, 2021, to undertake construction of the CSC Rangeland Center Phase II and renovation of the WSC U.S. Conn Library. LB 198 authorized the Corporation to issue bonds for these two projects. The bonding resulting from LB 198 provided over \$15 million in capital project funds. Various deferred repair and fire and life safety upgrades are in progress at all three Colleges.

See the notes to the 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 increased for the 2013-2015 biennium. The Governor and Legislature approved State funding for 2014-2015 at \$49,396,030, an increase of \$1,899,847 or 4.0% over 2013-2014 funding levels.

As part of an agreement between the Governor, the Legislature, and the NSCS on the biennium operating budget, the Board of Trustees froze tuition rates for 2013-2014 and 2014-2015 at the 2012-2013 levels. Increases in State funding over the 2013-2015 biennium allowed the NSCS to freeze tuition rates for the same period.

In accordance with the NSCS Bargaining Unit agreements for 2013-2015, professional staff with a 1.0 full-time equivalent (FTE) will receive a 2.0% increase in the 2014-2015 fiscal year. Faculty will receive a 2.0% increase for the 2014-2015 fiscal year. Support staff will also receive a 2.0% increase for the 2014-2015 fiscal year, while maintaining longevity increases.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

In addition to receiving notification of a 2.3% premium increase in health insurance rates for 2014-2015, the NSCS has also been notified that premium rates for the 2015-2016 year will increase an additional 1.9%.

Enrollment at the State Colleges (annual FTE) remained relatively stable for 2013-2014. Fall enrollments are also expected to remain stable for 2014-2015. The NSCS continues to engage in an increased emphasis on enrollment management and marketing.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET POSITION
June 30, 2014

Assets

Current Assets

Cash and Cash Equivalents	\$	24,028,014
Restricted Cash and Cash Equivalents		20,139,984
Accounts Receivable, Net of Allowance		1,462,089
State Grants and Appropriations Receivable		400,178
Other Receivables		197,322
Inventories		100,447
Loans to Students, Net		329,355
Prepaid Expenses		898,884
Deposits with Vendors		18,316
Total Current Assets		47,574,589

Non-current Assets

Restricted Cash and Cash Equivalents		31,088,915
Loans to Students, Net		1,693,682
Prepaid Expenses		49,331
Capital Assets, Net		182,559,821
Total Non-current Assets		215,391,749
Total Assets		262,966,338

Deferred Outflow of Resources

Unamortized Bond Refunding Amount, Net		51,070
Total Deferred Outflow of Resources		51,070

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities		10,896,372
Accrued Compensated Absences		359,150
Unearned Revenue		773,805
Interest Payable		606,066
Long-term Debt		4,220,263
Deposits Held in Custody for Others		67,086
Total Current Liabilities		16,922,742

Non-current Liabilities

Accrued Compensated Absences		3,337,607
Unearned Revenue		1,198,159
Long-term Debt		53,019,698
Total Non-current Liabilities		57,555,464
Total Liabilities		74,478,206

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET POSITION
June 30, 2014

Net Position

Net Investment in Capital Assets	139,705,523
Restricted for:	
Expendable:	
Loans	2,422,884
Debt service	4,632,203
Plant	5,286,878
Other	14,278,478
Unrestricted	<u>22,213,236</u>
 Total Net Position	 <u><u>\$ 188,539,202</u></u>

(Concluded)

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

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, 2014

ASSETS

Cash and Cash Equivalents - Unrestricted	\$	3,349,677
Cash and Cash Equivalents - Restricted		14,514
Certificates of Deposit		250,718
Investments		18,184,923
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$88,090		617,279
Other Assets		103,763
Property and Equipment, Net of Accumulated Depreciation		38,500
TOTAL ASSETS	\$	22,559,374

LIABILITIES AND NET ASSETS

Accounts Payable	\$	19,279
Wages Payable		82,032
Scholarships Payable		581,109
Deferred Revenue		23,606
Due to Other Agencies		48,680
TOTAL LIABILITIES		754,706

Unrestricted Net Assets:

Operating Fund		71,368
CSC General Fund		569,281
CSC Quasi Endowment		170,522
Greatest Need		2,160,021
Total Unrestricted Net Assets		2,971,192

Temporarily Restricted Net Assets:

Donor Designated		1,035,791
Named Endowment Activity		2,969,114
Total Temporarily Restricted Net Assets		4,004,905

Permanently Restricted Net Assets:

Named Endowment		14,828,571
TOTAL NET ASSETS		21,804,668

TOTAL LIABILITIES AND NET ASSETS	\$	22,559,374
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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)

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

STATEMENT OF FINANCIAL POSITION

December 31, 2013

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	300,987
Unconditional Promises to Give		14,702
Interest Receivable		4,917
Prepaid Expenses		103,111
Current Portion of Notes Receivable		21,046
TOTAL CURRENT ASSETS		444,763

PROPERTY AND EQUIPMENT

Land		60,947
Office Furniture and Fixtures		35,681
Vehicles		23,650
TOTAL PROPERTY AND EQUIPMENT		120,278
Less Accumulated Depreciation		48,219
NET PROPERTY AND EQUIPMENT		72,059

OTHER ASSETS

Investments		13,003,385
Real Estate Held for Future College Use		174,816
Notes Receivable, Less Current Portion		116,809
TOTAL OTHER ASSETS		13,295,010
TOTAL ASSETS	\$	13,811,832

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	18,358
Accrued Compensation		77,954
Accrued Expenses		1,623
Refundable Deposits		17,472
Current Portion of Notes Payable		190,572
Current Portion of Gift Annuity		380
TOTAL CURRENT LIABILITIES		306,359

LONG-TERM LIABILITIES

Note Payable, Less Current Portion		1,667
Gift Annuity, Less Current Portion		788
TOTAL LONG-TERM LIABILITIES		2,455
TOTAL LIABILITIES		308,814

NET ASSETS

Unrestricted Net Assets:		
Operating		5,083,451
Board Designated		1,164,201
TOTAL UNRESTRICTED NET ASSETS		6,247,652
Temporarily Restricted		1,141,779
Permanently Restricted		6,113,587
TOTAL NET ASSETS		13,503,018
TOTAL LIABILITIES AND NET ASSETS	\$	13,811,832

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, 2014

ASSETS

Cash and Cash Equivalents - Unrestricted	\$ 43,463
Cash and Cash Equivalents - Restricted	536,700
Total Cash and Cash Equivalents	580,163
Accrued Interest Receivable	729
Inventory	-
Unconditional Promises to Give	1,422,298
Prepays & Other Receivables	7,437
Investments	19,263,529
Property	293,245
Cash Value Life Insurance	92,769
Assets Restricted for Annuity Contracts	
Investments	1,119,154
Assets Held in Perpetual Trust	
Investments	925,717
TOTAL ASSETS	\$ 23,705,041

LIABILITIES AND NET ASSETS

Accounts & Faculty Grants Payable	\$ 77,334
Deferred (Unearned) Event Revenue	3,000
Annuities Payable	443,050
Total Liabilities	523,384

Net Assets:

Unrestricted:	
Undesignated	2,516,089
Endowment Funds Deficit	-
Designated	313,565
Total Unrestricted Net Assets	2,829,654
Temporarily Restricted	6,862,570
Permanently Restricted	13,489,433
Total Net Assets	23,181,657

TOTAL LIABILITIES AND NET ASSETS	\$ 23,705,041
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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 POSITION
Fiscal Year Ended June 30, 2014

Operating Revenues

Tuition and Fees Net of Scholarship Allowances and Institutional Waivers Totaling \$11,391,833	\$ 26,262,399
Federal Grants and Contracts	13,075,165
State Grants and Contracts	1,393,194
Private Grants and Contracts	1,894,341
Auxiliary Enterprises Net of Scholarship Allowances and Institutional Waivers Totaling \$3,685,780	17,709,618
Other Operating Revenues	<u>1,211,641</u>
Total Operating Revenues	<u>61,546,358</u>

Operating Expenses

Compensation and Benefits	64,183,567
Contractual Services	4,308,134
Supplies and Materials	11,663,490
Scholarships and Fellowships	5,994,039
Depreciation	7,301,762
Utilities	4,513,300
Repairs and Maintenance	4,587,211
Communications	478,904
Food Service	5,577,873
Other	<u>1,869,207</u>
Total Operating Expenses	<u>110,477,487</u>

Operating Loss (48,931,129)

Non-operating Revenue (Expenses)

State Appropriations	49,756,052
Investment Income	983,886
Interest on Capital Asset-Related Debt	(1,173,548)
Loss on Disposal of Asset	(7,351,929)
Bond Issuance Costs	(234,051)
Other Non-operating Expenses	<u>(44,928)</u>
Net Non-operating Revenues	<u>41,935,482</u>

Loss Before Other Revenues, Expenses, or Gains (Losses) (6,995,647)

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2014

Other Revenues, Expenses, or Gains (Losses)	
Capital Facilities Fees	2,086,875
Capital Contributions	1,436,633
Capital Appropriations and Grants	13,569,770
Net Other Revenues, Expenses, or Gains (Losses)	17,093,278
Increase in Net Position	10,097,631
Net Position, Beginning of Year	179,133,192
Prior Period Adjustment - See Note 1	(691,621)
Net Position, Beginning of Year as Restated	178,441,571
Net Position, End of Year	\$ 188,539,202

(Concluded)

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

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS (LOSSES), AND OTHER SUPPORT				
Fundraising Income	\$ 477,997	\$ 834,983	\$ -	\$ 1,312,980
Principle Contributions to Named Endowments	-	-	455,942	455,942
Management Fees	326,129	-	-	326,129
State Income	199,994	-	-	199,994
Unrealized Gain on Investments	163,510	672,042	-	835,552
Realized Gain on Investments	93,959	786,891	-	880,850
Interest and Dividend Income	75,057	251,275	-	326,332
Event Income	-	47,191	-	47,191
Miscellaneous Income	1,856	-	-	1,856
Total Revenues, Gains (Losses), and Other Support	1,338,502	2,592,382	455,942	4,386,826
Transfer Between Net Assets	(24,979)	(25,306)	50,285	-
Net Assets Released From Restrictions	1,892,622	(1,892,622)	-	-
Total Support and Reclassifications	3,206,145	674,454	506,227	4,386,826
EXPENSES				
Program Services	1,948,999	-	-	1,948,999
General and Management	470,371	-	-	470,371
Fundraising	252,546	-	-	252,546
Total Expenses	2,671,916	-	-	2,671,916
Increase (Decrease) IN NET ASSETS	534,229	674,454	506,227	1,714,910
NET ASSETS, BEGINNING OF YEAR	2,436,963	3,330,451	14,322,344	20,089,758
NET ASSETS, END OF YEAR	\$ 2,971,192	\$ 4,004,905	\$ 14,828,571	\$ 21,804,668

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 AND CHANGE IN NET ASSETS
For the Year Ended December 31, 2013

PUBLIC SUPPORT AND REVENUE	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	\$ 1,176,705	\$ 172,770	\$ 406,200	\$ 1,755,675
Special Events	15,257	21,191	-	36,448
Interest and Dividends	286,723	-	10,883	297,606
Realized Gain on Sale of Investments	591,717	-	22,440	614,157
Unrealized Gain on Investments	1,028,241	-	39,046	1,067,287
Change in Value of Annuities	(431)	-	-	(431)
Miscellaneous Income	1,311	-	519	1,830
TOTAL PUBLIC SUPPORT AND REVENUE	3,099,523	193,961	479,088	3,772,572
EXPENSES				
Program Expenses	1,194,321	-	-	1,194,321
Management Expenses	267,470	-	-	267,470
Fundraising Expenses	387,481	-	-	387,481
TOTAL EXPENSES	1,849,272	-	-	1,849,272
Net Assets Released from Restrictions	1,007,780	(1,004,759)	(3,021)	-
INCREASE/(DECREASE) IN NET ASSETS	2,258,031	(810,798)	476,067	1,923,300
NET ASSETS, Beginning of Year	3,989,621	1,952,577	5,637,520	11,579,718
NET ASSETS, End of Year	\$ 6,247,652	\$ 1,141,779	\$ 6,113,587	\$ 13,503,018

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Gift/Contributions Income	\$ 513,895	\$ 3,901,808	\$ 313,133	\$ 4,728,836
Interest and Dividends	56,390	233,851	10,388	300,629
Net Gain (Loss) on Investments	372,695	2,267,228	206,373	2,846,296
Other Non Gift Income	14,353	209,465	14,105	237,923
Total Revenue and Other Support	<u>957,333</u>	<u>6,612,352</u>	<u>543,999</u>	<u>8,113,684</u>
Assets Released from Restrictions/Transfers	3,105,747	(3,138,390)	32,643	-
EXPENSES:				
General and Administrative	218,767	-	-	218,767
Fundraising	354,500	-	-	354,500
Program Expenses	3,153,974	-	-	3,153,974
Total Expenses Before Amortization	<u>3,727,241</u>	<u>-</u>	<u>-</u>	<u>3,727,241</u>
Amortization of Annuity Contracts	14,088	-	69,187	83,275
Total Expenses	<u>3,741,329</u>	<u>-</u>	<u>69,187</u>	<u>3,810,516</u>
Administrative Support Fee	103,402	(103,402)	-	-
NET INCREASE (DECREASE) IN NET ASSETS	425,153	3,370,560	507,455	4,303,168
NET ASSETS, BEGINNING OF YEAR	<u>2,404,501</u>	<u>3,492,010</u>	<u>12,981,978</u>	<u>18,878,489</u>
NET ASSETS, END OF YEAR	<u>\$ 2,829,654</u>	<u>\$ 6,862,570</u>	<u>\$ 13,489,433</u>	<u>\$ 23,181,657</u>

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, 2014

Cash Flows From Operating Activities

Tuition and Fees	\$	25,848,130
Grants and Contracts		16,392,658
Payments to Suppliers		(26,514,282)
Payments for Utilities		(4,521,850)
Payments to Employees		(64,318,232)
Loans Issued to Students		(218,037)
Collections of Loans to Students		483,474
Sales and Services of Auxiliary Enterprises		17,925,487
Other Payments		(4,917,108)
		(39,839,760)
Net Cash Used in Operating Activities		(39,839,760)

Cash Flows From Non-capital Financing Activities

State Appropriations		49,635,195
Direct Lending Receipts		31,718,499
Direct Lending Payments		(31,718,499)
Other Payments		(58,381)
		49,576,814
Net Cash Provided by Non-capital Financing Activities		49,576,814

Cash Flows From Capital and Related Financing Activities

Proceeds from Capital Debt		19,569,519
Capital Contributions		1,436,633
Purchase of Capital Assets		(29,090,660)
Principal Paid on Capital Debt		(7,895,387)
Interest Paid on Capital Debt		(1,349,020)
Bond Issuance Costs		(234,051)
Capital Facilities Fees		2,089,238
Other		35,786
Capital Appropriations		14,452,170
		(985,772)
Net Cash Used by Capital and Related Financing Activities		(985,772)

Cash Flows From Investing Activities

Investment Income		983,675
		983,675
Net Cash Provided by Investing Activities		983,675

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2014

Increase in Cash and Cash Equivalents	9,734,957
Cash and Cash Equivalents, Beginning of Year	<u>65,521,956</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 75,256,913</u></u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and Cash Equivalents	\$ 24,028,014
Restricted Cash and Cash Equivalents - Current	20,139,984
Restricted Cash and Cash Equivalents - Non-current	<u>31,088,915</u>
Total Cash and Cash Equivalents	<u><u>\$ 75,256,913</u></u>
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Loss	\$ (48,931,129)
Depreciation Expense	7,301,762
Changes in Operating Assets and Liabilities	
Receivables, Net	(390,291)
Inventories	38,847
Accounts Payable and Accrued Liabilities	2,014,567
Accrued Compensated Absences	(116,113)
Other Assets and Liabilities	<u>242,597</u>
Net Cash Used in Operating Activities	<u><u>\$ (39,839,760)</u></u>
 Supplemental Cash Flows Information	
Accounts Payable Incurred for Capital Asset Purchases	\$ 4,139,076

(Concluded)

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

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ 1,714,910
Adjustments to Reconcile Increase (Decrease) in Net Assets	
To Net Cash Provided (Used) by Operating Activities	
Depreciation	-
Unrealized Loss (Gain) on Investments	(835,552)
Realized Loss (Gain) on Investments	(880,838)
Change in the Value of Trusts	-
Change in Estate Bequests	378,445
Change in Beneficial Interest in Annuity	38,027
Proceeds from Contributions Restricted for	
Investment in Named Endowments	(455,942)
(Increase) Decrease In:	
Contributions Receivable	98,833
Increase (Decrease) In:	
Accounts Payable	11,886
Wages Payable	56,066
Scholarships Payable	161,857
Deferred Revenue	(38,027)
Due to Other Agencies	(106,700)
Net Cash Provided (Used) by Operating Activities	142,965

CASH FLOWS FROM INVESTING ACTIVITIES

(Increase) Decrease in Cash Surrender Value of Life Insurance	9,507
Proceeds From Sale of Investments	2,533,668
Purchase of Investments	(2,068,605)
Proceeds from Q-Tip Trust	-
Proceeds from the Sale of Certificates of Deposit	865,927
Purchase of Certificates of Deposit	-
Net Cash Provided (Used) by Investing Activities	1,340,497

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Contributions Restricted for	
Investment in Named Endowments	455,942
Net Cash Provided by Financing Activities	455,942

Net Increase (Decrease) in Cash and Cash Equivalents	1,939,404
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,424,787
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,364,191
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and Cash Equivalents - Unrestricted	\$ 3,349,677
Cash and Cash Equivalents - Restricted	14,514
Total Cash and Cash Equivalents	\$ 3,364,191

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
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Net Increase in Net Assets	\$ 1,923,300
Adjustments to Reconcile Net Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	8,164
Unrealized Gain on Investments	(1,067,287)
Realized Gain on Investments	(614,157)
Gain on Sale of Assets	-
(Increase) Decrease in:	
Unconditional Promises to Give	(5,222)
Student Loans Receivable	-
Interest Receivable	712
Prepaid Expenses	(9,594)
Increase (Decrease) in:	
Accounts Payable	5,894
Accrued Compensation	21,818
Accrued Expenses	178
Refundable Deposits	(46,904)
Net Cash Provided by Operating Activities	216,902

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Land	-
Proceeds from Sale of Investments	1,225,741
Purchases of Investments	(2,379,137)
Net Gift Annuity (Payments)/Contributions	(15,912)
Payments Received on Notes Receivable	20,334
Net Cash Provided /(Used) by Investing Activities	(1,148,974)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Current Debt	-
Repayment of Long-term Debt	(26,953)
Net Cash Provided /(Used) by Financing Activities	(26,953)

NET INCREASE (DECREASE) IN CASH (959,025)

CASH, BEGINNING OF YEAR 1,260,012

CASH, END OF YEAR \$ 300,987

SUPPLEMENTAL DISCLOSURES

Noncash Investing and Financing Activities:	
Interest Paid	\$ 9,848

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 4,303,168
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	9,728
Amortization of Annuity Obligations	83,275
Non Cash Contributions	(96,094)
Net Loss (Gain) on Investments & (Reinvested Income)	(2,846,296)
(Increase) Decrease in Operating Non-Cash Assets:	
Accrued Interest Receivable, Prepaids & Other Receivables	(6,623)
Unconditional Promises to Give	(1,098,844)
Inventory	2,549
Cash Value Life Insurance	(10,228)
Increase (Decrease) in Operating Non-Cash Liabilities:	
Accounts & Faculty Grants Payable	19,342
Net Cash Provided (Used) by Operating Activities	359,977

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Property	-
Net Sales (Purchases) of Investments	(215,317)
Net Cash Provided (Used) by Investing Activities	(215,317)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Annuity Contracts	-
Payments on Annuity Contracts	(119,829)
Net Cash Provided (Used) by Financing Activities	(119,829)

NET CHANGE IN CASH & CASH EQUIVALENTS 24,831

Cash and Cash Equivalents, Beginning of Year 555,332

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 580,163

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, 2014

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 NSCS. 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 with resources from either the NSCS or the State. 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)

Condensed Statement of Net Position

	<u>NSCS</u>	<u>Corporation</u>	<u>Total</u>
Current Assets	\$ 45,431,417	\$ 2,143,172	\$ 47,574,589
Non-current Assets			
Capital Assets, Net	182,559,821	-	182,559,821
Other Non-current Assets	16,841,749	15,990,179	32,831,928
Total Assets	<u>244,832,987</u>	<u>18,133,351</u>	<u>262,966,338</u>
 Deferred Outflow of Resources	 <u>51,070</u>	 <u>-</u>	 <u>51,070</u>
 Current Liabilities	 12,867,068	 4,055,674	 16,922,742
Non-current Liabilities	<u>31,715,362</u>	<u>25,840,102</u>	<u>57,555,464</u>
Total Liabilities	<u>44,582,430</u>	<u>29,895,776</u>	<u>74,478,206</u>
 Net Position			
Net Investment in Capital Assets	155,215,114	(15,509,591)	139,705,523
Restricted	22,873,277	3,747,166	26,620,443
Unrestricted	<u>22,213,236</u>	<u>-</u>	<u>22,213,236</u>
Total Net Position	<u>\$ 200,301,627</u>	<u>\$ (11,762,425)</u>	<u>\$ 188,539,202</u>

[Continued on Next Page]

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Position

	<u>NSCS</u>	<u>Corporation</u>	<u>Total</u>
Operating Revenues			
Tuition and Fees, Net	\$ 26,262,399	\$ -	\$ 26,262,399
Federal and State Grants and Contracts	14,468,359	-	14,468,359
Private Grants and Contracts	1,894,341	-	1,894,341
Auxiliary Enterprises, Net	17,709,618	-	17,709,618
Other Operating Revenues	1,211,641	-	1,211,641
Total Operating Revenues	61,546,358	-	61,546,358
Operating Expenses			
Depreciation	7,301,762	-	7,301,762
Other Operating Expenses	103,175,725	-	103,175,725
Total Operating Expenses	110,477,487	-	110,477,487
Operating Loss	(48,931,129)	-	(48,931,129)
Non-operating Revenues (Expenses)			
State Appropriations	49,756,052	-	49,756,052
Investment Income	983,741	145	983,886
Interest on Capital Asset-Related Debt	(715,314)	(458,234)	(1,173,548)
Loss on Disposal of Asset	(7,351,929)	-	(7,351,929)
Bond issuance costs	(61,930)	(172,121)	(234,051)
Other Non-operating Expenses	(20,136)	(24,792)	(44,928)
Net Non-operating Revenues (Expenses)	42,590,484	(655,002)	41,935,482
Loss before Other Revenues, Expenses, Or Gains (Losses)	(6,340,645)	(655,002)	(6,995,647)
Other Revenues, Expenses, or Gains (Losses)			
Capital Appropriations and Grants	12,444,770	1,125,000	13,569,770
Capital Contributions	1,436,633	-	1,436,633
Operating Transfers In (Out)	(1,547,618)	1,547,618	-
Capital Facilities Fee	2,086,875	-	2,086,875
Net Other Revenues, Expenses, Or Gains (Losses)	14,420,660	2,672,618	17,093,278
Increase in Net Position	8,080,015	2,017,616	10,097,631
Net Position, Beginning of Year	192,725,568	(13,592,376)	179,133,192
Prior Period Adjustment	(503,956)	(187,665)	(691,621)
Net Position, Beginning of Year as Restated	192,221,612	(13,780,041)	178,441,571
Net Position, End of Year	\$ 200,301,627	\$ (11,762,425)	\$ 188,539,202

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Condensed Statement of Cash Flows

	NSCS	Corporation	Total
Cash Flows from Operating Activities	\$ (39,839,760)	\$ -	\$ (39,839,760)
Cash Flows from Non-capital Financing Activities	49,576,814	-	49,576,814
Cash Flows from Capital and Related Financing Activities	(17,004,225)	16,018,453	(985,772)
Cash Flows from Investing Activities	983,532	143	983,675
Increase (Decrease) in Cash and Cash Equivalents	(6,283,639)	16,018,596	9,734,957
Cash and Cash Equivalents, Beginning of Year	63,467,142	2,054,814	65,521,956
Cash and Cash Equivalents, End of Year	\$ 57,183,503	\$ 18,073,410	\$ 75,256,913

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 Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements of Not-for-Profit Entities*. 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 11).

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2014, Chadron State, Wayne State, and Peru State Foundations distributed \$1,345,521, \$2,836,763, and \$348,888, respectively, to their Colleges for both restricted and unrestricted purposes. These distributions also included scholarships to students. 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 1327 H Street, Suite 200, Lincoln, Nebraska 68508-3751.

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

The financial statements of the NSCS have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Revenues, expense, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange activities 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Unrestricted Net Position – Net position not subject to stipulation, including designated departmental balances, encumbrances, and working capital funds.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Restricted Net Position – Net position 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, liabilities and deferred inflows and outflows of resources 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 position during the reporting period. Actual results could differ from those estimates.

Reclassifications

The non-current portion of restricted cash and cash equivalents, along with the net position of the NSCS, include reclassifications for the Corporation's current restricted cash and cash equivalents of \$15,940,909 and unrestricted net position deficit of \$15,509,591. Although the Corporation issues debt to finance construction and renovation projects, the assets that are constructed and/or renovated using Corporation debt are owned by the NSCS. In order to properly present the NSCS's non-current restricted cash and cash equivalents and net investment in capital assets, a portion of the current restricted cash and cash equivalents and the unrestricted net position of the Corporation is reclassified when blended with the NSCS. Additionally, when blended with the NSCS, \$296,914 of interest expense related to Corporation debt is capitalized.

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, 2014.

The NSCS considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014, cash equivalents consisted primarily of money market accounts with brokers.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Income Tax Status

As a State institution, the income of the NSCS is generally exempt from Federal and State income taxes under Section 115(a) of the Internal Revenue Code and provisions of State law. However, the NSCS is subject to Federal income tax on any unrelated business taxable income.

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 \$1,149,946 at June 30, 2014, and is identified by College as follows:

CSC	\$	626,430
PSC	\$	345,541
WSC	\$	168,136
NSCS Office	\$	9,839

Unamortized Bond Premiums and Discounts

The NSCS's bond premiums and discounts on the revenue bond and Corporation bond issues are being amortized over the life of the bonds using the straight-line method. Total amortization for the year ended June 30, 2014, was \$144,089 for premiums and \$8,754 for discounts, and it is identified by College as follows:

CSC	\$	5,042
PSC	\$	1,096
WSC	\$	2,848
NSCS Office	\$	143,857

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 Foundations. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$135,456 at June 30, 2014, and is identified by College as follows:

CSC	\$	2,700
WSC	\$	132,756

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. The NSCS follows the capitalization policy set forth by the Board. 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 if they are expected to meet the NSCS's capitalization threshold as dictated by the capitalization policy. Art objects, specimens, artifacts and collections, including library materials, are expensed so long as the items meet three conditions in accordance with GASB 34. Depreciation/amortization is computed using the straight-line method over the estimated useful life of each asset beginning with the month of purchase. The following estimated useful lives are being used by the NSCS:

Buildings and improvements	25 – 50 years
Infrastructure	10 – 30 years
Furniture, fixtures, and equipment	3 – 10 years

During 2014, the NSCS changed the capitalization thresholds and the estimated useful lives assigned to certain capital assets included within the NSCS's capital asset categories. The NSCS believes that the new estimated useful lives and capitalization thresholds more accurately reflect its financial position and changes in financial position. The change in capitalization policy has been prospectively applied to the 2014 financial statements as of July 1, 2013. These changes resulted in \$10,415,044 of previously capitalized assets, net of \$3,063,782 in related accumulated depreciation, being removed from the NSCS's accounting records. The net amount of \$7,351,262 was recorded as Loss on Disposal of Asset in the Statement of Revenues, Expenses, and Changes in Net Position.

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 Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of net position by the NSCS that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position by the NSCS that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the Statement of Net Position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the NSCS consist of unamortized bond refunding amounts. The NSCS has no deferred inflows of resources as of June 30, 2014.

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.

Unearned Revenue

Unearned revenue represents unearned student tuition and fees, advances on grants and contract awards for which the NSCS has not met all of the applicable eligibility requirements, and longevity bonus revenues and investment (improvement) revenues from food service and/or vending contractors, which are being amortized over the life of the contracts.

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

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 Position. 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, 2014, as calculated under the NACUBO method, were \$11,391,833 and \$3,685,780, respectively, and are identified by College as follows:

	Tuition and Fees	Auxiliary Enterprises
CSC	\$ 4,331,815	\$ 880,641
PSC	\$ 2,571,607	\$ 869,454
WSC	\$ 4,488,411	\$ 1,935,685

Implementation of New Accounting Principle

In 2014, the NSCS implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

previously reported as assets and liabilities. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the NSCS reported debt issuance costs as deferred charges that were capitalized and amortized over the life of the debt. Deferred charges were reported as an asset on the Statement of Net Position. Under GASB Statement No. 65, debt issuance costs, exclusive of any prepaid insurance costs, are to be recognized in the period of the debt issue. Implementation of GASB Statement No. 65 resulted in a restatement of previously reported net position by a decrease of \$480,795 for the retrospective removal of those debt issuance costs.

Restatement of Prior Year Net Position

The 2013 net position was restated as the result of errors being detected during the current fiscal year. In fiscal year 2013, some liabilities and assets were not accrued or were not properly accrued. These errors caused the ending net position to be overstated in fiscal year 2013 by \$210,826. Asset and liability categories, as well as revenue and expenditure categories, were over and (understated) by College, as listed below:

	<u>CSC</u>	<u>PSC</u>	<u>WSC</u>	<u>Total</u>
Assets – Current	-	(6,460)	(70,847)	(77,307)
Assets – Non-current	(67,439)	-	(1,101,689)	(1,169,128)
Liabilities – Current	-	(523)	(250,905)	(251,428)
Liabilities – Non-current	(4,507)	(6,945)	(1,194,381)	(1,205,833)
Net Position	(62,932)	1,008	272,750	210,826
Operating Revenues	4,507	22,938	326,858	354,303
Operating Expenses	-	21,930	-	21,930
Non-operating Expenses	29,225	-	195	29,420
Other Revenues, Expenses, or Gains/Losses	38,214	-	53,913	92,127

2. Deposits, Investments, and Investment Return

Deposits

Per Board policy and State statute, all money received by the NSCS must 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 must 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, 2014, cash and cash equivalents of \$48,122,694 on the Statement of Net Position represents the NSCS's equity position in the State Treasurer's Short-Term Investment Pool (STIP). 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' website (www.auditors.nebraska.gov) and clicking "APA Reports Issued."

Cash on hand at June 30, 2014, was \$5,350. The carrying amount of the NSCS's deposits not with the State Treasurer was \$1,992,151, and the bank balance was \$1,999,748. The bank balance at June 30, 2014, 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.

Investments

Management of the assets of the Corporation and the revenue bond program are delegated to the bond trustees appointed by the Corporation Board of Directors or the NSCS Board of Trustees. All investments are held by the bond trustees and invested in accordance with the bond resolutions. The bond resolutions allow investment of bond proceeds in various securities and obligations, including: U.S. government and U.S. agency obligations; bonds, notes or other obligations of the State or any political subdivision thereof; bank repurchase agreements; certificates of deposit or other securities or investments within the State investing guidelines.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

At June 30, 2014, the NSCS's investments consisted of money market mutual funds totaling \$25,136,718 held by the bond trustees, which had weighted average maturities of 37-49 days and were reported as cash equivalents.

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. One money market mutual fund is rated Aaa-mf by Moody's and AAAM by S&P, and the other is rated Aaa by Moody's and AAAM by S&P.

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of the NSCS's investments, 92% are in U.S. Treasury Money Market Funds, and 8% 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.

Summary of Fair Values

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

Fair Value		
Cash	\$	5,350
Deposits:		
Bank Deposits		1,992,151
Short Term Investment Pool		48,122,694
Investments		25,136,718
Total as of June 30, 2014	\$	<u>75,256,913</u>
Included in the Statement of Net Position		
Cash and Cash Equivalents	\$	24,028,014
Restricted Cash and Cash Equivalents		51,228,899
Total	\$	<u>75,256,913</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Capital Assets

The NSCS capital assets activity for the year ended June 30, 2014, was:

Assets

	Beginning Balance, As Restated	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,095,433	\$ -	\$ -	\$ -	\$ 1,095,433
Building and Improvements	194,381,248	-	(9,573,990)	4,005,043	188,812,301
Infrastructure	26,666,696	-	-	1,477,739	28,144,435
Furniture, Fixtures, and Equipment	16,807,729	523,094	(149,438)	165,128	17,346,513
Construction in Progress	11,079,045	28,469,605	(857,753)	(5,647,910)	33,042,987
Total Assets	<u>250,030,151</u>	<u>28,992,699</u>	<u>(10,581,181)</u>	<u>-</u>	<u>268,441,669</u>

Accumulated Depreciation

	Beginning Balance, As Restated	Additions	Disposals	Transfers	Ending Balance
Building and Improvements	(62,918,390)	(4,588,483)	3,080,423	94,945	(64,331,505)
Infrastructure	(11,031,221)	(1,088,042)	-	-	(12,119,263)
Furniture, Fixtures, and Equipment	(7,852,068)	(1,625,237)	141,170	(94,945)	(9,431,080)
Total Accumulated Depreciation	<u>(81,801,679)</u>	<u>(7,301,762)</u>	<u>3,221,593</u>	<u>-</u>	<u>(85,881,848)</u>
Net Capital Assets	<u>\$ 168,228,472</u>	<u>\$21,690,937</u>	<u>\$ (7,359,588)</u>	<u>\$ -</u>	<u>\$ 182,559,821</u>

Net Assets by College

	CSC	PSC	WSC	NSCS Office	Balance
Land	\$ 49,395	\$ 10,201	\$ 1,035,837	\$ -	\$ 1,095,433
Building and Improvements	27,371,801	33,303,222	63,805,773	-	124,480,796
Infrastructure	4,413,368	3,155,159	8,456,645	-	16,025,172
Furniture, Fixtures, and Equipment	1,635,710	260,381	1,000,537	5,018,805	7,915,433
Construction in Progress	18,437,361	9,028,562	5,577,064	-	33,042,987
Net Capital Assets	<u>\$51,907,635</u>	<u>\$ 45,757,525</u>	<u>\$ 79,875,856</u>	<u>\$ 5,018,805</u>	<u>\$ 182,559,821</u>

Interest expense capitalized, net of related interest income, was \$353,210 for the fiscal year ended June 30, 2014. Total interest expense during the fiscal year was \$1,739,138.

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, 2014:

	Beginning Balance, As Restated	Additions	Deductions	Ending Balance	Current Portion
Loan Obligations					
Payable	\$ 137,855	\$ -	\$ (21,046)	\$ 116,809	\$ 21,783
Revenue and Refunding					
Bonds	30,080,000	4,270,000	(6,450,000)	27,900,000	885,000
Corporation Bonds	15,440,000	13,460,000	(1,635,000)	27,265,000	3,270,000
Total Long-Term Debt	<u>45,657,855</u>	<u>17,730,000</u>	<u>(8,106,046)</u>	<u>55,281,809</u>	<u>4,176,783</u>
Accrued Compensated Absences	3,812,871	359,150	(475,264)	3,696,757	359,150
Unamortized Bond Premium	149,441	1,878,768	(144,090)	1,884,119	-
Unamortized Bond Discount	(147,816)	-	11,190	(136,626)	-
Other Liabilities	1,445,286	366,000	(298,644)	1,512,642	314,557
Total Other Long-Term Liabilities	<u>5,259,782</u>	<u>2,603,918</u>	<u>(906,808)</u>	<u>6,956,892</u>	<u>673,707</u>
Total Long-Term Liabilities	<u>\$ 50,917,637</u>	<u>\$20,333,918</u>	<u>\$(9,012,854)</u>	<u>\$ 62,238,701</u>	<u>\$ 4,850,490</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/AFSCME) 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, an eligible employee who is 55 years of age or more on July 1 of the year in which he or she chooses to retire, and has 10 or more years of consecutive service within the NSCS, will be paid one-quarter of his or her 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 the full cost of the 65 Gold Plus Medicare Supplemental Plan or the Retired BlueSenior Classic Plan offered by the

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

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, 2014. Similar voluntary retirement settlement programs were also offered to support staff in the NAPE/AFSCME bargaining unit who retired on July 1, 2009, June 30, 2010, or June 30, 2012.

Under the early retirement incentive program, eligible employees who have completed at least 10 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 employees' retirement. The payment of premium will continue until the retired employees become eligible for coverage under the Federal Medicare program, at which time the paid premiums will cease.

At June 30, 2014, six employees at CSC, two employees at PSC, and five employees at WSC 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 Position, the Combining Schedule of Net Position, and the footnote amount above. All termination benefits are shown at present cost.

	<u>Ending Balance</u>	<u>Current Portion</u>
CSC	86,533	32,332
PSC	16,114	7,656
WSC	\$ 86,956	\$ 72,793
Total	\$ 189,603	\$ 112,781

Student Fees and Facilities Revenue Bonds Series 2003

In June 2003, the NSCS Board of Trustees authorized the issuance of \$6,910,000 of Student Fees and Facilities Revenue Bonds Series 2003. 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 may 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, and were to bear interest at rates from 1.6% to 5.25%, with payments due from 2005 to 2028. Bonds maturing on or after July 1, 2014, were able to be redeemed, in part or in whole, on or after July 1, 2013.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

On June 5, 2014, CSC's outstanding Revenue Bonds, Series 2003 principal was called using proceeds from the issuance of Revenue Bonds, Series 2014, and WCS's outstanding was extinguished using cash on hand.

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 Fees and Facilities Revenue Bonds Series 2010. The purpose of the issuance was to finance improvements to WSC'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 may 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. Bonds maturing on or after July 1, 2016, are able to be redeemed, in part or in whole, on or after January 1, 2016.

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 Fees and Facilities Revenue Bond Series 2011. The purpose of the issuance was to finance improvements to PSC'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 may 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. Bonds maturing on or after July 1, 2017, are able to be redeemed, in part or in whole, on or after July 1, 2016.

Student Fees and Facilities Revenue Bonds Series 2012

In April 2012, the NSCS Board of Trustees authorized the issuance of \$8,750,000 of Student Fees 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. On July 1, 2012, the net proceeds from Series 2012 bonds were used to redeem the Series 2002 bonds. This advanced refunding reduced total debt service payments over the remaining 15 years by \$2,264,673. Bond refunding resulted in an estimated economic gain of \$1,515,352. The difference between the reacquisition price and the net carrying amount of the old debt has been deferred and is amortized over the remaining life of the new debt, which is the same as the life of the

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Long-Term Liabilities (Continued)

refunded debt. 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 may be appropriated for payment of principal and interest. The amounts for WSC and PSC's portion of the bond obligations 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. Bonds maturing on or after July 1, 2018, can be redeemed, in part or in whole, on or after July 1, 2017.

Student Fees and Facilities Revenue Bonds Series 2013

In September 2012, the NSCS Board of Trustees authorized the issuance of \$7,735,000 of Student Fees and Facilities Revenue Bonds Series 2013. The purpose of the issuance was to finance the construction of CSC's Eagle Ridge housing and maintenance to several revenue bond building roofs. 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 may be appropriated for payment of principal and interest. The \$7,735,000 in bonds bear interest at rates from 0.6% to 3.0%, with payments due from 2014 to 2034. Bonds maturing on or after July 1, 2018, can be redeemed, in part or in whole, on or after January 3, 2018.

Student Fees and Facilities Revenue Bonds Series 2014

In April 2014, the NSCS Board of Trustees authorized the issuance of \$4,270,000 of Student Fees and Facilities Revenue Bonds Series 2014. The purpose of the issuance was to redeem in full the outstanding principal amount of CSC's Student Fees and Facilities Revenue and Refunding Bonds Series 2003. On June 5, 2014, the net proceeds from Series 2014 bonds were used to redeem the Series 2003A bonds. This current refunding reduced total debt service payments over the remaining 14 years by \$1,085,523. Bond refunding resulted in an estimated economic gain of \$654,661. The difference between the reacquisition price and the net carrying amount of the old debt has been deferred and is being amortized over the remaining life of the new debt, which is the same as the life of the refunded debt. 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 may be appropriated for payment of principal and interest. The \$4,270,000 in bonds bear interest at rates from 0.35% to 4.0%, with payments due from 2016 to 2029. Bonds maturing on or after July 1, 2020, can be redeemed, in part or in whole, on or after July 1, 2019.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **Long-Term Liabilities** (Continued)

Corporation Bonds

In August 2006, the Corporation authorized the issuance of \$21,915,000 of Deferred Maintenance Bonds, Series 2006. Proceeds were 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 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. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer. 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 July 15, 2020. Bonds maturing on or after July 15, 2017, are callable at the option of the Corporation beginning July 15, 2016.

In November 2013, the Corporation authorized the issuance of \$13,460,000 of Building Bonds, Series 2014. Proceeds from the issuance of these bonds will be used to help build a portion of the CSC Rangeland Center and will be used to renovate WSC's U.S. Conn Library. This bond issue is a general obligation of the Corporation, which is a separate legal entity that is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The financial resources used to repay the bonds are appropriations. The bonds bear interest payable semiannually, at rates of 2.00% to 5.00%, and are due in semiannual installments, which began June 15, 2014. Principal maturities begin June 15, 2015, and continue until June 15, 2021. The bonds are not subject to redemption prior to maturity.

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 may be appropriated for payment of principal and interest. The loan bears interest payable annually at the rate of 3.50% and is due in annual installments, which began May 1, 2008. Principal maturities began May 1, 2008, and continue until 2019.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Continued)

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

CSC Revenue Bonds			
Year Ending June 30	Principal	Interest	Total
2015	\$ -	\$ 223,127	\$ 223,127
2016	620,000	266,471	886,471
2017	630,000	262,786	892,786
2018	635,000	256,604	891,604
2019	640,000	247,888	887,888
2020-2024	3,375,000	1,054,061	4,429,061
2025-2029	3,745,000	618,518	4,363,518
2030-2034	2,360,000	181,050	2,541,050
Total	\$ 12,005,000	\$ 3,110,505	\$ 15,115,505

PSC Loan Obligation Payable			
Year Ending June 30	Principal	Interest	Total
2015	\$ 21,783	\$ 4,088	\$ 25,871
2016	22,545	3,326	25,871
2017	23,334	2,537	25,871
2018	24,151	1,720	25,871
2019	24,996	875	25,871
Total	\$ 116,809	\$ 12,546	\$ 129,355

PSC Revenue and Refunding Bonds			
Year Ending June 30	Principal	Interest	Total
2015	\$ 305,000	\$ 182,305	\$ 487,305
2016	305,000	178,960	483,960
2017	320,000	174,741	494,741
2018	315,000	169,646	484,646
2019	325,000	163,531	488,531
2020-2024	1,740,000	686,758	2,426,758
2025-2029	1,820,000	366,770	2,186,770
2030-2032	745,000	57,696	802,696
Total	\$ 5,875,000	\$ 1,980,407	\$ 7,855,407

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **Long-Term Liabilities** (Continued)

WSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2015	\$ 580,000	\$ 245,260	\$ 825,260
2016	590,000	240,357	830,357
2017	595,000	234,070	829,070
2018	590,000	226,362	816,362
2019	605,000	217,021	822,021
2020-2024	3,220,000	881,548	4,101,548
2025-2029	3,190,000	383,998	3,573,998
2030-2031	650,000	26,200	676,200
Total	<u>\$ 10,020,000</u>	<u>\$ 2,454,816</u>	<u>\$ 12,474,816</u>

Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2015	\$ 3,270,000	\$ 1,155,432	\$ 4,425,432
2016	3,385,000	1,043,075	4,428,075
2017	3,505,000	910,318	4,415,318
2018	3,680,000	742,568	4,422,568
2019	3,850,000	575,434	4,425,434
2020-2021	9,575,000	612,800	10,187,800
Total	<u>\$ 27,265,000</u>	<u>\$ 5,039,627</u>	<u>\$ 32,304,627</u>

NSCS Loan Obligation and Bond Summary

Year Ending June 30	Principal	Interest	Total
2015	\$ 4,176,783	\$ 1,810,212	\$ 5,986,995
2016	4,922,545	1,732,189	6,654,734
2017	5,073,334	1,584,452	6,657,786
2018	5,244,151	1,396,900	6,641,051
2019	5,444,996	1,204,749	6,649,745
2020-2024	17,910,000	3,235,167	21,145,167
2025-2029	8,755,000	1,369,286	10,124,286
2030-2034	3,755,000	264,946	4,019,946
Total	<u>\$ 55,281,809</u>	<u>\$ 12,597,901</u>	<u>\$ 67,879,710</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Liabilities (Concluded)

The bond resolutions of the 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, 2014, the NSCS was in compliance with these requirements.

5. Capital and Operating Leases

The State of Nebraska, through the Department of Administrative Services (DAS) – Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. CSC used this financing arrangement to finance the acquisition of non-capitalized equipment. CSC's Master Lease expires in fiscal year 2019.

Future minimum Master Lease payments as of June 30, 2014, were:

CSC Master Lease Obligation Summary			
Year Ending			
June 30	Principal	Interest	Total
2015	\$ 43,480	\$ 2,005	\$ 45,485
2016	43,939	1,546	45,485
2017	44,403	1,082	45,485
2018	44,872	613	45,485
2019	33,965	149	34,114
Total	<u>\$ 210,659</u>	<u>\$ 5,395</u>	<u>\$ 216,054</u>

Noncancellable operating leases related primarily to land, office space, and equipment expire in various fiscal years through 2019. Renewal options for leases containing such provision ranged from one to five years. These operating leases generally require the NSCS to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future noncancellable operating lease payments as of June 30, 2014, were:

2015	\$ 192,726
2016	129,357
2017	122,033
2018	89,037
2019	26,700
Total	<u>\$ 559,853</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Pension Plan

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board of Trustees and may be amended by the Board in accordance with Neb. Rev. Stat. § 85-320 (Reissue 2014). 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 2014, 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, 2014, by plan members and the NSCS aggregated were \$2,523,676 and \$3,364,522, respectively. At June 30, 2014, the plan had 779 contributing members.

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, Roth individual retirement account (IRA), and 457 deferred compensation supplemental plan. Plan members contributed \$934,644 to the SRA, \$44,433 to the Roth IRA, and \$49,796 to the 457 plan in 2014. 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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. **Risk Management** (Concluded)

- D. Director and officer liability, with a limit of \$4,000,000 and a self-insured retention of \$150,000.
- 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.

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 \$37,211,441, as of June 30, 2014. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College, as follows:

CSC	\$	20,389,326
PSC	\$	275,593
WSC	\$	16,546,522

Government Grants

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Restricted Net Position

Restricted net position reports resources that are owned by the NSCS, but their use or purpose is restricted. Restricted net position reported on the statement of net position is 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 Corporation and revenue bond balances reserved for debt service payments.

Plant represents funds reserved for capital improvements net of any related debt.

Other represents funds restricted through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

10. Joint Venture

On September 14, 2006, WSC 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 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. During 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. Component Unit Disclosures – Foundations

On the following pages are the notes taken from the audited financial statements, for the years ended as indicated below, of the Foundations:

<u>Foundation</u>	<u>Year Ended</u>	<u>Pages</u>
Chadron State	June 30, 2014	52 - 66
Peru State	December 31, 2013	67 - 77
Wayne State	June 30, 2014	78 - 91

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

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 accounting principles generally accepted in the United States of America. 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)

Designation of Unrestricted Net Assets (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 allocated the entire fund balance to Capital Campaign Initiatives to be used as needed or necessary to complete the current capital projects.

Cash and Cash Equivalents - For the purpose of the Statements of Financial Position and the Statements of Cash Flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased. 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.

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)

Investments (Continued)

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.

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, 2014, was \$73,545.

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. Repairs and maintenance charges that do not increase the useful lives of the assets are charged to expense 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:

		Capitalization Policy	Estimated Useful Life
Land		N/A	N/A
Office Equipment	\$	1,000	3 – 15 yrs
Building and Improvements	\$	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 accounting principles generally accepted in the United States of America 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)

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

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, 2014. The total bank balance represents the amount held by the bank. The carrying balance represents the reconciled general ledger balance at June 30, 2014.

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, 2014

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	\$2,761,972	\$2,761,972	\$ 250,000	\$ -	\$ 2,511,972
North Platte Bank					
Operating Account	444,319	412,025	250,000	-	194,319
Credit Card Account	152,563	152,562	152,563	-	-
First National Bank – Chadron					
Custodial Account	15,018	14,514	15,018	-	-
Edward Jones					
Money Market	23,118	23,118	-	23,118	-
Certificates of Deposit					
Security First Bank	250,000	250,718	250,000	-	-
	<u>\$3,646,990</u>	<u>\$3,614,909</u>	<u>\$ 917,581</u>	<u>\$ 23,118</u>	<u>\$ 2,706,291</u>

NOTE 3 - CONTRIBUTIONS

Contributions receivable at June 30, 2014, were as follows:

	2014
Receivable in Less Than One Year	\$ 404,954
Receivable in One to Five Years	310,617
Receivable in Six to Ten Years	<u>7,500</u>
Total Contributions Receivable	\$ 723,071
Less Unamortized Discounts to Net Present Value	(17,702)
Less Allowance for Uncollectable Accounts	<u>(88,090)</u>
Net Contributions Receivable	<u>\$ 617,279</u>

The discount rates used on long-term promises to give was 2.63% for the year ended June 30, 2014.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 4 - INVESTMENTS

Investments are stated at fair value and are shown below as of June 30, 2014:

	Cost 06/30/2014	Market Value 06/30/2014	Unrealized Appreciation
Mutual Funds:			
Large Cap	\$ 6,227,900	\$ 6,660,410	\$ 432,510
Mid Cap	947,000	931,464	(15,536)
Small Cap	1,064,000	997,084	(66,916)
Index	1,309,000	1,458,737	149,737
International	4,805,957	1,175,854	(3,630,103)
Fixed Income	1,125,800	4,821,158	3,695,358
Hedge Funds	2,110,000	2,140,216	30,216
Total Investments	<u>\$ 17,589,657</u>	<u>\$ 18,184,923</u>	<u>\$ 595,266</u>

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.

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.

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)

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

For the year ended June 30, 2014, the majority of the Foundation's investments are managed in one portfolio fund consisting of bond and equity funds. These funds are priced in an active market (Level 1). The Foundation does hold a portion of the investment pool in hedge funds. These funds are not priced or quoted in the active market, but the assets can be priced in an active market under the valuation methods described in (Level 2).

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2014:

	June 30, 2014	Fair Value Measurements Using			
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds:					
Large Cap		\$ 6,660,410	\$ 6,660,410	\$ -	\$ -
Mid Cap		931,464	931,464	-	-
Small Cap		997,084	997,084	-	-
Index		1,458,737	1,458,737	-	-
International		1,175,854	1,175,854	-	-
Fixed Income		4,821,158	4,821,158	-	-
Hedge Funds		2,140,216	-	2,140,216	-
Total Investments		<u>\$ 18,184,923</u>	<u>\$ 16,044,707</u>	<u>\$ 2,140,216</u>	<u>\$ -</u>

The following schedule summarizes the investment return in the Statement of Activities for the year ended June 30, 2014:

	2014
Interest and dividend income	\$ 326,332
Net realized gains	880,850
Net unrealized gains (losses)	835,552
Management fees	(104,619)
Total	<u>\$ 1,938,115</u>

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

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 based on donor stipulations. The Hale, Weedon, Funkhouser and Gates Estate Bequests were finalized in the current fiscal year. The Foundation was notified of one additional estate bequest (Gochnauer) in 2013, and one in 2014 (Wilkenson), both are expected to make the final distribution in the next fiscal year. These bequests were recorded at their estimated fair value as of June 30, 2014. The fair value of the beneficial interests at June 30, 2014, was as follows:

2014	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Wilkenson Estate	\$ 54,516	\$ -	\$ -	\$ 54,516
Cash Surrender Value of Life Insurance	25,641	-	-	25,641
Beneficial Interest in Annuity	23,606	-	-	23,606
Total Other Assets	<u>\$ 103,763</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,763</u>

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

2014	Beneficial Interest in Gochnauer Estate	Beneficial Interest in Wilkenson Estate Bequest	Cash Surrender Value of Life Insurance	Beneficial Interest in Annuity
Beginning balance, July 1, 2013	\$ 432,961	\$ -	\$ 35,148	\$ 61,633
Purchases, issuance, settlements	(443,976)	54,516	(10,397)	(41,910)
Total gains (realized, unrealized)	11,015	-	890	3,883
Ending balance, June 30, 2014	<u>\$ -</u>	<u>\$ 54,516</u>	<u>\$ 25,641</u>	<u>\$ 23,606</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014, consisted of the following:

	<u>2014</u>
Land	\$ 38,500
Office Equipment	<u>95,098</u>
	\$ 133,598
Less Accumulated Depreciation	<u>(95,098)</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 38,500</u>

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, 2014, the restricted cash balance was \$14,514. The amount held in endowed investments as of June 30, 2014, was \$744,191 and the total due to other agencies balance was \$48,680.

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, 2014, the Board of Directors had designated \$170,522, 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

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)

Investments - Board-designated Endowment (Continued)

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 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.

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 accounting principles generally accepted in the United States of America, 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 pay out accordingly. See Donor Designated Endowments - *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 accounting principles generally accepted in the United States of America, 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

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)

Investments - Donor Designated Endowments (Continued)

appropriated from the expenditure by the Foundation in a manner consistent with the standard of prudence prescribed 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 effects of inflation and deflation, (5) the expected total return from the income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

Spending Policy - Distributions from Named Endowment are to be according to the Foundation's Endowment policies. Grant levels are based on the weighted average fund balance, using the adjusted pool of awarding endowments during the past three (3) fiscal years. The distribution approved by the Foundation Board shall not exceed five percent (5.0%) of the weighted average fund balance. Distribution from any individual endowment shall be according to restrictions within that controlling endowment. Distributions from 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.

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)

Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment fund	\$ -	\$ 2,969,114	\$14,828,571	\$ 17,797,685
Board-designated endowment fund	170,522	-	-	170,522
Total funds	\$ 170,522	\$ 2,969,114	\$14,828,571	\$ 17,968,207

Changes in endowment net assets as of June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 529,200	\$ 2,036,930	\$14,322,344	\$ 16,888,474
Contributions	-	-	455,942	455,942
Investment Income, net of fees	25,315	958,700	-	984,015
Net appreciation	(9,646)	672,042	-	662,396
Transfers	(369,080)	(223)	50,285	(319,018)
Amounts appropriated for expenditures	(5,267)	(698,335)	-	(703,602)
Endowment net assets, end of year	\$ 170,522	\$ 2,969,114	\$14,828,571	\$ 17,968,207

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	2014
Scholarships and College Use	\$ 4,004,905
Total Temporarily Restricted Net Assets	\$ 4,004,905

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	<u>2014</u>
Purpose Restriction Accomplished:	
Scholarships	\$ 509,897
College Use	869,907
Management Fees	433,352
Investment Fees	<u>79,466</u>
 Total Restrictions Released	 <u>\$ 1,892,622</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2014, net assets were permanently restricted for the endowment in the amount of \$14,828,571. The income from the endowment can be used to support Chadron State College. At June 30, 2014, the fair value of investments related to the restricted endowment was \$17,266,191, leaving the amount assigned to individual donor-restricted endowments required to be maintained in perpetuity with an excess balance of \$2,437,620 for 2014.

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 year ended June 30, 2014, were \$19,673.

NOTE 12 - COMMITMENTS

The Foundation agreed to provide the College with \$2 million for the Rangeland Center Project. As of June 30, 2014, \$1,419,907 has been provided to the College.

The Foundation has started transferring dollars to the 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 Foundation will provide the College with the \$2 million match, plus an additional \$1 million from the Chicoine Fund that will name the facility for a total commitment of \$3 million.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Concluded)

NOTE 12 – COMMITMENTS (CONTINUED)

In August 2013, the board of directors designated \$529,000 from the CSC Quasi endowment plus \$361,000 of earnings from the Chicoine fund to provide the additional \$1 million for the naming. As the Chicoine fund generates earnings the CSC Quasi endowment will be replenished. The CSC Quasi endowment will only be used in the event that the full \$1 million is not secured by earnings from the Chicoine fund by the expected date, December 2014.

NOTE 13 - SUBSEQUENT EVENTS

On August 15, 2014, the Chadron State Foundation Board approved the named endowment and grant to campus payouts for the 2015-16 academic year. This will result in a liability at December 31, 2014, of \$523,334 for the named endowments and \$136,894 for the grant to campus.

The Foundation has evaluated subsequent events through October 3, 2014, the date which 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)

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 objectively. These accounting policies have been consistently applied in the preparation of the financial statements.

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
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

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.

Functional Allocation of Expenses

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES (CONTINUED)

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, 2013.

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. All student loans receivable were written off as of December 31, 2012.

Property, equipment and depreciation

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

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:

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)

Property, equipment and depreciation (Continued)

Office Furniture and Fixtures	3 - 7 years
Vehicles	5 years
Rental Property	27.5 years

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 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 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

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)

Endowments and Investments – Continued

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 2013.

The Foundation's federal Exempt Organization Tax Returns (Form 990) for 2010, 2011 and 2012 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, 2013 consist of the following:

	Cost	Gross Unrealized Gain/(Loss)	Fair Market Value
Fixed Income Funds:			
Westwood Cash Reserves, LLC	\$ 249,407	\$ -	\$ 249,407
Westwood Core Income, LLC	1,488,053	241,703	1,729,756
Westwood Total Return, LLC	1,323,341	1,749,563	3,072,904
Equity Funds:			
Westwood Tactical Opportunity, LLC	423,500	198,198	621,698
Westwood Diversified Core Equity, LLC	993,023	1,832,368	2,825,391
Westwood Focused Core Equity, LLC	867,574	633,809	1,501,383
Westwood Diversified Small/Mid Cap Equity, LLC	183,014	502,016	685,030
Westwood Focused Small Cap Equity, LLC	242,122	144,917	387,039
Westwood International Equity, LLC	1,123,999	806,778	1,930,777
	<u>\$ 6,894,033</u>	<u>\$ 6,109,352</u>	<u>\$ 13,003,385</u>

Investment expense which consists of management fees totaled \$78,245 for the year ending December 31, 2013.

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

	2013
Fair Value of Endowed Assets	\$ 8,577,371
Historical Dollar Value of Endowed Assets	(6,113,587)
Net Appreciation - Endowed Assets	<u>\$ 2,463,784</u>

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

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:

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 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:

	<u>2013</u>
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.	137,855
Less Current Portion of Notes Receivable	<u>21,046</u>
	<u>\$ 116,809</u>

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:

2014	\$	21,046
2015		21,783
2016		22,545
2017		23,334
2018		24,151
Thereafter		24,996
	\$	<u>137,855</u>

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 \$17,472 as of December 31, 2013. The Farmer to Farmer Fund was closed during 2012.

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 \$1,168 as of December 31, 2013, represents the present value of the future cash flows expected to be paid to the donors. The annuities payable are discounted at 2.45% (7-year Treasury Bill rate at December 31, 2013) and are due in quarterly installments. In April 2013, an annuity recipient passed away. The outstanding balance was recorded as current year contributions in 2013.

The aggregate maturities of gift annuities for the years ending after December 31, 2013, are as follows:

<u>Year</u>		
2014	\$	380
2015		389
2016		399
	\$	<u>1,168</u>

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

PERU STATE FOUNDATION (Continued)

NOTE H - NOTES PAYABLE

At December 31, 2013, the Foundation has a \$189,739 short-term bank loan that bears interest at 3.50%.

In addition, the Foundation has a non-interest bearing loan of \$2,500 with a company requiring annual installments of \$833 through 2016.

Maturities on these notes are as follows:

<u>Years Ending December 31,</u>	
2014	\$ 190,572
2015	834
2016	833
	<u>\$ 192,239</u>

NOTE I - NET ASSETS

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

	<u>2013</u>
Designated for scholarship	\$ 600,620
Designated for work stipends	558,081
Designated for campus improvements	5,500
	<u>\$ 1,164,201</u>

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

	<u>2013</u>
Restricted for scholarships	\$ 434,634
Restricted for education and athletic departments	707,145
Restricted for Oak Bowl Renovation	-
	<u>\$ 1,141,779</u>

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 (CONTINUED)

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 2013 amounted to \$155,116.

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

	<u>2013</u>
Purpose restriction accomplished:	
Scholarships	\$ 118,061
Departmental and athletic gifts to College	54,173
Oakbowl Renovations	819,741
Management fees	<u>15,805</u>
	<u>\$ 1,007,780</u>

NOTE J - RELATED PARTY TRANSACTIONS

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

	<u>2013</u>
Salary and Wage Reimbursement	\$ 319,239
Gifts	47,144
Departmental Expenses	<u>832,919</u>
	<u>\$ 1,199,302</u>

The Foundation owed the College for salary and wage expenses paid to its employees by the College in the amount of \$31,575 at December 31, 2013.

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 \$17,276 for the year ended December 31, 2013, and is included in salaries and wages on the statement of functional expenses.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Concluded)

NOTE L - CONCENTRATIONS

During 2013, the Foundation received approximately 71% of its contributions from three individuals.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 14, 2014, 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
(Continued)

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 cooperation 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.

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.

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 for real property and 5 years for vehicles. Depreciation expense was \$9,728 for the year ended June 30, 2014.

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 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.

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)

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 2010. 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, 2014, was \$13,490.

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, 2014) for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through September 10, 2014, which is the date the financial statements were available to be issued.

NOTE C - CREDIT RISK ARISING FROM CASH DEPOSITS

At times the Foundation may have uninsured bank deposits. At June 30, 2014, the Foundation had bank deposits of \$1,387,282, none of which was uninsured.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE D - PROMISES TO GIVE

Unconditional Promises

Unconditional promises are recorded at their net realizable value.

Unconditional promises to give at June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises to give	\$ -	\$ 1,589,740	\$ 9,450	\$ 1,599,190
Less discount to present value	-	(163,907)	(133)	(164,040)
Less allowance for uncollectible prom.	-	(12,852)	-	(12,852)
Net unconditional promises to give	<u>\$ -</u>	<u>\$ 1,412,981</u>	<u>\$ 9,317</u>	<u>\$ 1,422,298</u>

Estimated future cash flows of unconditional promises are as follows:

	Estimated cash flows	Discount	Discounted value
Due 6/30/2014	\$ 25,550	\$ -	\$ 25,550
6/30/2015	363,940	(13,999)	349,941
6/30/2016	364,348	(27,488)	336,860
6/30/2017	343,500	(38,130)	305,370
6/30/2018	331,500	(48,132)	283,368
6/30/2019	57,500	(10,239)	47,261
More than 5 years 6/30/2020-2028	100,000	(26,052)	73,948
	<u>\$ 1,586,338</u>	<u>\$ (164,040)</u>	<u>\$ 1,422,298</u>

The allowance for uncollectible promises represents the unpaid portion of the Phonathon pledges. All other pledges are considered collectible. At June 30, 2014 \$25,550 of other pledges were past due including \$19,550 that were over 90 days past due. Other pledges written off for the fiscal year ended June 30, 2014, was \$7,656.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE E - INVESTMENTS

Investments as of June 30, 2014 are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/14 Total</u>
Money markets	\$ 56,118	\$ 1,087,236	\$ 4,625	\$ 1,147,979
Certificates of Deposits	46,391	485,000	257,477	788,868
Commonfund- Equity Fund	1,380,222	3,004,315	8,209,327	12,593,864
Commonfund- Bond Fund	677,786	318,037	3,566,398	4,562,221
Subtotal Commonfund	<u>2,058,008</u>	<u>3,322,352</u>	<u>11,775,725</u>	<u>17,156,085</u>
Other Securities	31,371	111,057	28,169	170,597
Totals	<u>2,191,888</u>	<u>5,005,645</u>	<u>12,065,996</u>	<u>19,263,529</u>
Investments restricted for annuity contracts:				
Commonfund- Equity Fund	323,496	-	482,089	805,585
Commonfund- Bond Fund	125,901	-	187,668	313,569
Totals	<u>449,397</u>	<u>-</u>	<u>669,757</u>	<u>1,119,154</u>
Investments held in perpetual trust:				
Money Markets	-	-	1,377	1,377
Bonds and notes	-	-	289,489	289,489
Equities	-	-	634,851	634,851
Totals	<u>-</u>	<u>-</u>	<u>925,717</u>	<u>925,717</u>
Total all investments	<u>\$ 2,641,285</u>	<u>\$ 5,005,645</u>	<u>\$ 13,661,470</u>	<u>\$ 21,308,400</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, 2014 the Foundation had investments (including reserved for annuities) with Commonfund of \$18,275,239, which represents approximately 87% 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, 2014 in valuing the Foundation's investments:

<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short Term Cash Investments and Certificates of Deposit	\$ 9,000	\$ 1,936,847	\$ -	\$ 1,945,847
U.S. Equity	641,719	11,389,531	-	12,031,250
International Equity	141,647	1,607,934	-	1,749,581
Emerging Markets Equity	13,218	401,983	-	415,201
Fixed Income	290,729	4,875,792	-	5,166,521
Total	<u>\$ 1,096,313</u>	<u>\$ 20,212,087</u>	<u>\$ -</u>	<u>\$ 21,308,400</u>

The Foundation did not hold other financial instruments as of June 30, 2014.

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	\$ 7,201	\$ 44,479	\$ 10,922	\$ 62,602

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, 2014, the beneficiary was still living in the house; therefore, it is not being depreciated.

	Bressler Alumni House	1308 Main	Cunningham Condo	Vehicle	Total
Land	\$ 20,000	\$ 39,500	\$ -	\$ -	\$ 59,500
Building	134,417	81,000	80,000	-	295,417
Vehicle	-	-	-	17,371	17,371
Subtotal	154,417	120,500	80,000	17,371	372,288
Accumulated Depreciation	(54,663)	(18,300)	-	(6,080)	(79,043)
Net 6/30/14	\$ 99,754	\$ 102,200	\$ 80,000	\$ 11,291	\$ 293,245
Depreciation Exp. FYE 6/30/14	\$ 3,554	\$ 2,700	\$ -	\$ 3,474	\$ 9,728

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	6/30/14 Cash Value
Unrestricted	\$ 376,801	\$ 67,580
Temporarily Restricted	37,500	3,631
Permanently Restricted	126,331	21,558
Totals	\$ 540,632	\$ 92,769

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 1.2% to 9.6% and life expectancies of annuity beneficiaries based on IRS tables.

Annuity assets and liabilities as of June 30, 2014, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Investments restricted for annuity contracts	\$ 449,397	\$ 669,757	\$ 1,119,154
Annuities Payable	\$ 116,622	\$ 326,428	\$ 443,050

NOTE I - UNRESTRICTED NET ASSETS

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

Board Designated:	
Quasi-Endowment	\$ 313,565
Total board designated	\$ 313,565

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, 2014:

Program Activities:	
Scholarships and Grants	\$ 4,290,537
Improvements	1,421,348
College Departments	700,662
SSC College Center (see Note S)	29,482
Time Only Restriction (Unrestricted receivables)	415,805
Other Designated Programs	4,736
Total Temporarily Restricted Net Assets	<u>\$ 6,862,570</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 319 individual funds established for a variety of purposes. Its endowment includes both donor restricted funds and funds designated by the Executive Committee to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds including funds designated by the Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee of the Foundation has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence

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)

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,902,747	\$ 12,149,513	\$ 16,052,260
Board-designated endowment funds	313,565	-	-	313,565
Total Funds	<u>\$ 313,565</u>	<u>\$ 3,902,747</u>	<u>\$ 12,149,513</u>	<u>\$ 16,365,825</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 250,145	\$ 1,966,512	\$ 11,792,532	\$ 14,009,189
Contributions	-	-	317,226	317,226
Transfers	-	(23,643)	32,643	9,000
Net investment income	4,501	217,886	-	222,387
Net appreciation	58,919	2,267,228	-	2,326,147
Non gift income (sale of collectibles)	-	-	7,112	7,112
Amounts appropriated for expenditure	-	(525,236)	-	(525,236)
Endowment net assets, end of year	<u>\$ 313,565</u>	<u>\$ 3,902,747</u>	<u>12,149,513</u>	<u>\$ 16,365,825</u>

Other permanently restricted net assets:

Interest in Robert Cunningham Perpetual Trust	925,716
Real estate restricted for use towards Cunningham Scholarship	40,000
Cash Value of Life Insurance to Fund Permanently Restricted Endowment Funds	21,558
Charitable Gift Annuity Net Assets to Fund Permanently Restricted Endowments at a Future Date	343,329
Promises to Fund Permanently Restricted Endowment Funds	9,317
Total Permanently Restricted Net Assets	<u>\$ 13,489,433</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 \$0 as of June 30, 2014. These deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Executive Committee of the Foundation.

Contributions. Contributions above include the change in promises to fund permanently restricted endowment funds (net endowment receivables) of \$4,093.

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 was \$155,378, for the year ended June 30, 2014. This amount has been recognized in the financial statements.

NOTE O - PENSION PLAN

The Foundation contributes to a defined contribution retirement plan and is required to contribute 8% of the employee's salary. The Foundation's contributions to the retirement plan was \$19,600 for the year ended June 30, 2014.

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, 2014 was \$119,680 and the accrual was \$29,920. Accumulated vacation is payable upon termination and at June 30, 2014 was \$26,157.

NOTE Q - COMMITMENTS

The renovation of U.S. Conn Library, named in honor of Wayne State College's first president, U.S. Conn who served from 1910 to 1935, began in May 2014. The renovation will be phased over three years with the completion projected in the summer of 2017. The architectural firm of Jackson-Jackson & Associates, Inc. of Omaha, NE developed the plan to create a modern library that meets the needs of students. Beckenhauer Construction Company of Norfolk, NE has been retained as the construction manager. The cost of the renovation is estimated at \$18.9 million. The Wayne State Foundation has committed to raise \$3.1 million. Gifts and pledges of \$2.6 million have been secured. The State of Nebraska, the 309 Task Force and Wayne State College will provide the rest of the funding required to complete the renovation.

The Foundation has agreed to raise funds for the Athletic Improvement Project in the amount of \$575,000. The total cost of the Athletic Improvement Project is estimated to be \$1.65 million. As of June 30, 2014, the Foundation has gifts and pledges of \$631,000.

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

For the year ended June 30, 2014 the Foundation provided direct support to Wayne State College of \$2,836,763 and reimbursed the College for \$332,381 for payroll and other operating expenses. The Foundation's total payments to Wayne State College were \$3,169,144. Direct support consisted of \$1,706,163 for scholarships, stipends, and tuition assistance; \$597,807 for capital improvements for the football field turf/track, soccer field, athletic facilities, Veterans Plaza, and Willow Bowl renovation; \$321,782 for athletic scholarships; \$168,214 for athletics programs budget transfers and programs; and \$42,797 for general budget support college departments. Additional indirect support of \$122,931 for Wayne State College was made to vendors and individuals.

The Foundation had cash and CD's totaling \$249,754, as of June 30, 2014, at State Nebraska Bank & Trust, where one of their board members is the chairman.

The Foundation had cash and CD's totaling \$195,322, as of June 30, 2014, at First Nebraska 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, 2014, at Siouxland National Bank, where one of their board members is president.

The Foundation had various transactions for the year ended June 30, 2014 with the Diamond Center and Flowers & Wine totaling \$4,412. The owner of the two businesses is a board member of the Foundation.

The Foundation purchased Business and Property Insurance from Northeast Nebraska Insurance, during the year ended June 30, 2014, for \$4,076. One of the board members of the Foundation is an owner of this business.

Board members and employees may pledge amounts to the Foundation for various projects and campaigns for support. At June 30, 2014 the outstanding pledge balances were \$1,450,105

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Concluded)

NOTE S - SSC COLLEGE CENTER (cont'd)

To supplement the state and federal funding, a private fundraising 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 \$1,000 of outright gifts and no new pledges. Pledges receivable at June 30, 2014 included in the temporarily restricted balance, amounted to \$28,200 with a net present value of \$25,697.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET POSITION
June 30, 2014

	<u>CSC</u>	<u>PSC</u>	<u>WSC</u>	<u>NSCS Office</u>	<u>Total</u>
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 5,294,365	\$ 3,108,663	\$ 13,330,107	\$ 2,294,879	\$ 24,028,014
Restricted Cash and Cash Equivalents	1,671,336	2,898,449	9,092,690	6,477,509	20,139,984
Accounts Receivable, Net of Allowance	490,841	552,704	400,420	18,124	1,462,089
State Grants and Appropriations Receivable	-	127,448	14,609	258,121	400,178
Other Receivables	86,975	94,434	-	15,913	197,322
Inventories	7,706	53,334	39,407	-	100,447
Loans to Students, Net	102,128	-	227,227	-	329,355
Prepaid Expenses	417,233	191,857	217,069	72,725	898,884
Deposits with Vendors	-	-	1,310	17,006	18,316
Total Current Assets	<u>8,070,584</u>	<u>7,026,889</u>	<u>23,322,839</u>	<u>9,154,277</u>	<u>47,574,589</u>
Non-current Assets					
Restricted Cash and Cash Equivalents	7,523,382	1,538,726	6,085,898	15,940,909	31,088,915
Loans to Students, Net	691,544	-	1,002,138	-	1,693,682
Prepaid Expenses	-	-	-	49,331	49,331
Capital Assets, Net	<u>51,907,635</u>	<u>45,757,525</u>	<u>79,875,856</u>	<u>5,018,805</u>	<u>182,559,821</u>
Total Non-current Assets	<u>60,122,561</u>	<u>47,296,251</u>	<u>86,963,892</u>	<u>21,009,045</u>	<u>215,391,749</u>
Total Assets	<u>68,193,145</u>	<u>54,323,140</u>	<u>110,286,731</u>	<u>30,163,322</u>	<u>262,966,338</u>
Deferred Outflow of Resources					
Unamortized Bond Refunding Amount, Net	27,381	8,438	15,251	-	51,070
Total Deferred Outflow of Resources	<u>27,381</u>	<u>8,438</u>	<u>15,251</u>	<u>-</u>	<u>51,070</u>
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	4,172,055	1,834,950	2,950,544	1,938,823	10,896,372
Accrued Compensated Absences	113,563	51,546	178,349	15,692	359,150
Unearned Revenue	49,425	31,758	692,622	-	773,805
Interest Payable	88,697	92,559	123,671	301,139	606,066
Long-Term Debt	43,480	326,783	580,000	3,270,000	4,220,263
Deposits Held in Custody for Others	20,865	33,570	12,651	-	67,086
Total Current Liabilities	<u>4,488,085</u>	<u>2,371,166</u>	<u>4,537,837</u>	<u>5,525,654</u>	<u>16,922,742</u>
Non-current Liabilities					
Accrued Compensated Absences	1,133,415	591,572	1,404,145	208,475	3,337,607
Unearned Revenue	-	-	1,198,159	-	1,198,159
Long-Term Debt	<u>12,120,608</u>	<u>5,650,784</u>	<u>9,408,204</u>	<u>25,840,102</u>	<u>53,019,698</u>
Total Non-current Liabilities	<u>13,254,023</u>	<u>6,242,356</u>	<u>12,010,508</u>	<u>26,048,577</u>	<u>57,555,464</u>
Total Liabilities	<u>17,742,108</u>	<u>8,613,522</u>	<u>16,548,345</u>	<u>31,574,231</u>	<u>74,478,206</u>
Net Position					
Net Investment in Capital Assets	40,286,765	39,426,392	70,483,152	(10,490,786)	139,705,523
Restricted for:					
Expendable:					
Loans	1,090,416	-	1,332,468	-	2,422,884
Debt Service	-	305,002	580,035	3,747,166	4,632,203
Plant	616,517	1,039,953	972,886	2,657,522	5,286,878
Other	5,204,173	2,530,112	6,182,213	361,980	14,278,478
Unrestricted	<u>3,280,547</u>	<u>2,416,597</u>	<u>14,202,883</u>	<u>2,313,209</u>	<u>22,213,236</u>
Total Net Position	<u>\$ 50,478,418</u>	<u>\$ 45,718,056</u>	<u>\$ 93,753,637</u>	<u>\$ (1,410,909)</u>	<u>\$ 188,539,202</u>

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2014

	CSC	PSC	WSC	NSCS Office	Total
Operating Revenues					
Tuition and Fees, Net of Scholarship					
Allowances and Institutional Waivers	\$ 8,428,208	\$ 5,793,366	\$ 12,040,825	\$ -	\$ 26,262,399
Federal Grants and Contracts	4,371,314	3,627,545	5,076,306	-	13,075,165
State Grants and Contracts	350,930	414,393	627,871	-	1,393,194
Private Grants and Contracts	304,381	1,032,363	557,597	-	1,894,341
Auxiliary Enterprises, Net of Scholarship					
Allowances and Institutional Waivers	6,123,458	3,259,166	8,326,994	-	17,709,618
Other Operating Revenues	762,444	177,638	271,559	-	1,211,641
Total Operating Revenues	20,340,735	14,304,471	26,901,152	-	61,546,358
Operating Expenses					
Compensation and Benefits	21,368,632	13,084,824	28,405,044	1,325,067	64,183,567
Contractual Services	1,281,371	928,101	1,503,598	595,064	4,308,134
Supplies and Materials	3,932,434	2,559,945	5,141,990	29,121	11,663,490
Scholarships and Fellowships	1,816,739	2,371,764	1,805,536	-	5,994,039
Depreciation	1,857,823	1,485,560	3,080,236	878,143	7,301,762
Utilities	1,418,904	963,215	2,131,181	-	4,513,300
Repairs and Maintenance	2,199,693	412,932	1,974,586	-	4,587,211
Communications	123,824	184,950	149,438	20,692	478,904
Food Service	1,903,908	1,148,684	2,525,281	-	5,577,873
Other	1,426,571	168,162	123,475	150,999	1,869,207
Total Operating Expenses	37,329,899	23,308,137	46,840,365	2,999,086	110,477,487
Operating Loss	(16,989,164)	(9,003,666)	(19,939,213)	(2,999,086)	(48,931,129)
Non-operating Revenue (Expenses)					
State Appropriations	18,470,400	9,154,012	20,534,418	1,597,222	49,756,052
Investment Income	197,947	114,179	512,977	158,783	983,886
Interest on Capital Asset-Related Debt	(251,051)	(190,202)	(274,061)	(458,234)	(1,173,548)
Loss on Disposal of Asset	(758,952)	(2,088,083)	(4,504,894)	-	(7,351,929)
Bond Issuance Costs	(61,930)	-	-	(172,121)	(234,051)
Other Non-operating Revenue					
(Expense)	-	(16,090)	10	(28,848)	(44,928)
Net Non-operating Revenues	17,596,414	6,973,816	16,268,450	1,096,802	41,935,482
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	607,250	(2,029,850)	(3,670,763)	(1,902,284)	(6,995,647)
Other Revenues, Expenses, or Gains (Losses)					
Capital Facilities Fees	-	-	-	2,086,875	2,086,875
Capital Contributions	869,907	1,300	565,426	-	1,436,633
Operating Transfers In (Out)	(990,478)	(47,408)	2,678,319	(1,640,433)	-
Capital Appropriations and Grants	7,385,689	4,637,505	171,576	1,375,000	13,569,770
Net Other Revenues, Expenses, or Gains (Losses)	7,265,118	4,591,397	3,415,321	1,821,442	17,093,278
Increase (Decrease) in Net Position	7,872,368	2,561,547	(255,442)	(80,842)	10,097,631
Net Position, Beginning of Year	42,670,669	43,193,021	94,411,904	(1,142,402)	179,133,192
Prior Period Adjustment - See Note 1	(64,619)	(36,512)	(402,825)	(187,665)	(691,621)
Net Position, Beginning of Year as Restated	42,606,050	43,156,509	94,009,079	(1,330,067)	178,441,571
Net Position, End of Year	\$ 50,478,418	\$ 45,718,056	\$ 93,753,637	\$ (1,410,909)	\$ 188,539,202

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2014

	CSC	PSC	WSC	NSCS Office	Total
Cash Flows From Operating Activities					
Tuition and Fees	\$ 8,225,182	\$ 5,649,306	\$ 11,973,642	\$ -	\$ 25,848,130
Grants and Contracts	5,026,625	5,084,810	6,281,223	-	16,392,658
Payments to Suppliers	(9,224,923)	(5,375,220)	(11,568,956)	(345,183)	(26,514,282)
Payments for Utilities	(1,427,454)	(963,215)	(2,131,181)	-	(4,521,850)
Payments to Employees	(21,462,239)	(13,125,479)	(28,378,611)	(1,351,903)	(64,318,232)
Loans Issued to Students	(1,501)	-	(216,536)	-	(218,037)
Collections of Loans to Students	250,224	-	233,250	-	483,474
Sales and Services of Auxiliary Enterprises	6,129,324	3,288,397	8,507,766	-	17,925,487
Other Receipts (Payments)	(1,054,295)	(2,245,444)	(1,657,452)	40,083	(4,917,108)
Net Cash Used in Operating Activities	<u>(13,539,057)</u>	<u>(7,686,845)</u>	<u>(16,956,855)</u>	<u>(1,657,003)</u>	<u>(39,839,760)</u>
Cash Flows From Non-capital Financing Activities					
State Appropriations	18,470,400	9,030,710	20,534,418	1,599,667	49,635,195
Grants and Contracts	-	-	-	-	-
Direct Lending Receipts	10,169,818	8,897,885	12,650,796	-	31,718,499
Direct Lending Payments	(10,169,818)	(8,897,885)	(12,650,796)	-	(31,718,499)
Other Receipts (Payments)	-	(29,542)	9	(28,848)	(58,381)
Net Cash Provided by Non-capital Financing Activities	<u>18,470,400</u>	<u>9,001,168</u>	<u>20,534,427</u>	<u>1,570,819</u>	<u>49,576,814</u>
Cash Flows From Capital and Related Financing Activities					
Proceeds from Capital Debt	4,270,000	-	-	15,299,519	19,569,519
Capital Contributions	869,907	1,300	565,426	-	1,436,633
Purchase of Capital Assets	(18,149,470)	(5,994,297)	(4,946,893)	-	(29,090,660)
Disposal of Capital Assets	-	-	-	-	-
Principal Paid on Capital Debt	(4,484,341)	(316,046)	(1,460,000)	(1,635,000)	(7,895,387)
Interest Paid on Capital Debt	(259,699)	(189,630)	(284,493)	(615,198)	(1,349,020)
Bond Issuance Costs	(61,930)	-	-	(172,121)	(234,051)
Capital Facilities Fees	-	-	-	2,089,238	2,089,238
Transfers In (Out)	(990,478)	(47,408)	2,678,319	(1,640,433)	-
Other	(5,697)	-	32,591	8,892	35,786
Capital Appropriations	7,385,689	5,519,905	171,576	1,375,000	14,452,170
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,426,019)</u>	<u>(1,026,176)</u>	<u>(3,243,474)</u>	<u>14,709,897</u>	<u>(985,772)</u>
Cash Flows From Investing Activities					
Investment Income	197,947	114,982	512,977	157,769	983,675
Net Cash Provided by Investing Activities	<u>197,947</u>	<u>114,982</u>	<u>512,977</u>	<u>157,769</u>	<u>983,675</u>
Increase (Decrease) in Cash and Cash Equivalents	(6,296,729)	403,129	847,075	14,781,482	9,734,957
Cash and Cash Equivalents, Beginning of Year	<u>20,785,812</u>	<u>7,142,709</u>	<u>27,661,620</u>	<u>9,931,815</u>	<u>65,521,956</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,489,083</u>	<u>\$ 7,545,838</u>	<u>\$ 28,508,695</u>	<u>\$ 24,713,297</u>	<u>\$ 75,256,913</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS

Fiscal Year Ended June 30, 2014

	<u>CSC</u>	<u>PSC</u>	<u>WSC</u>	<u>NSCS Office</u>	<u>Total</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position					
Cash and Cash Equivalents	\$ 5,294,365	\$ 3,108,663	\$ 13,330,107	\$ 2,294,879	\$ 24,028,014
Restricted Cash and Cash Equivalents - Current	1,671,336	2,898,449	9,092,690	6,477,509	20,139,984
Restricted Cash and Cash Equivalents - Non-current	<u>7,523,382</u>	<u>1,538,726</u>	<u>6,085,898</u>	<u>15,940,909</u>	<u>31,088,915</u>
Total Cash and Cash Equivalents	<u>\$ 14,489,083</u>	<u>\$ 7,545,838</u>	<u>\$ 28,508,695</u>	<u>\$ 24,713,297</u>	<u>\$ 75,256,913</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities.					
Operating Loss	\$(16,989,164)	\$ (9,003,666)	\$(19,939,213)	\$ (2,999,086)	\$ (48,931,129)
Depreciation Expense	1,857,823	1,485,560	3,080,236	878,143	7,301,762
Changes in Operating Assets and Liabilities					
Receivables, Net	(180,461)	(143,083)	(63,773)	(2,974)	(390,291)
Inventories	(489)	33,798	5,538	-	38,847
Accounts Payable and Accrued Liabilities	1,740,862	22,358	(284,646)	535,993	2,014,567
Accrued Compensated Absences	(67,383)	(48,327)	26,433	(26,836)	(116,113)
Other Assets and Liabilities	<u>99,755</u>	<u>(33,485)</u>	<u>218,570</u>	<u>(42,243)</u>	<u>242,597</u>
Net Cash Used in Operating Activities	<u><u>\$(13,539,057)</u></u>	<u><u>\$ (7,686,845)</u></u>	<u><u>\$(16,956,855)</u></u>	<u><u>\$ (1,657,003)</u></u>	<u><u>\$ (39,839,760)</u></u>
Supplemental Cash Flows Information					
Accounts Payable Incurred for Capital Asset Purchases	\$ 2,561,477	\$ 852,340	\$ 240,724	\$ 484,535	\$ 4,139,076

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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**

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the business-type activities, and the discretely presented component units of the Nebraska State College System as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Nebraska State College System's basic financial statements, and have issued our report thereon dated December 8, 2014. Our report includes a reference to other auditors who audited the financial statements of the Nebraska State College System Foundations, the Nebraska State Colleges Facilities Corporation, and the Nebraska State College System Revenue and Refunding Bond Program, 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

In planning and performing our audit of the financial statements, we considered the Nebraska State College System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the of Nebraska State College System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska State College System's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State College System's financial statements are free from 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*.

Nebraska State College System's Findings

We did note certain other matters that we reported to management of the Nebraska State College System in a separate letter dated December 8, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lincoln, Nebraska
December 8, 2014



Don Dunlap, CPA
Assistant Deputy Auditor