

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

**JULY 1, 2010 THROUGH JUNE 30, 2011**

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**Issued on February 28, 2012**

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

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# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2011, which collectively comprise the Nebraska State College System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nebraska State College System's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accompanying Statements of Financial Position of Chadron State, Peru State, and Wayne State Foundations (Foundations), discretely presented component units of the NSCS, as of June 30, 2011, December 31, 2010, and June 30, 2011, respectively, and the related Statements of Activities and Cash Flows for the years then ended. Those statements are presented separately on pages 14 through 16, 19 through 21, and 24 through 26. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State Colleges Facilities Corporation, a blended component unit of the Nebraska State College System, as of June 30, 2011. The Revenue and Refunding Bond Fund and Facilities Corporation represent 11%, 34%, 2%, and 18%, respectively, of the total assets, liabilities, net assets, and revenues, of the primary government. The financial statements of the Foundations, Revenue and Refunding Bond Fund, and Facilities Corporation were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chadron State, Peru State, and Wayne State Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State Colleges Facilities Corporation is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards

require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundations, the Revenue and Refunding Bond Fund, and the Facilities Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NSCS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to 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, 2011, and December 31, 2010 (Peru State Foundation), and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During audit fieldwork, the NSCS's executive management issued to NSCS employees communications which, in effect, restricted its employees full and open participation in the audit process. Additionally, the NSCS refused to answer specific questions and provide all information and/or records requested by the Auditor of Public Accounts (APA). The APA concluded the possible affect of the restrictions would not modify our opinion on the NSCS's basic financial statements as noted in the previous paragraph. However, these restrictions have created an environment detrimental to the APA's ability to conduct a comprehensive audit of NSCS operations and completely resolve all audit uncertainties. These critical issues have been reported by the APA to the NSCS's Board of Trustees.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the Nebraska State College System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the NSCS's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Combining Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011, taken as a whole.

Signed Original on File

Lincoln, Nebraska  
February 27, 2012

Don Dunlap, CPA  
Assistant Deputy Auditor

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

This section of the Nebraska State College System's (NSCS) financial report presents a narrative overview and analysis of the financial activities of the NSCS for the fiscal year ended June 30, 2011. The analysis has been prepared by management of the NSCS and is intended to be read with the financial statements and the related footnotes that follow this section.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

**FINANCIAL ANALYSIS OF THE NSCS AS A WHOLE**

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

(Continued)

The audit for the fiscal year ended June 30, 2011, includes information on the Nebraska State Colleges Facilities Corporation, a non-profit corporation statutorily created to allow the NSCS to finance building projects of the Board of Trustees of the Nebraska State College System on any of its campuses, through the issuance of notes, bonds, or other obligations. The members of the Board of Trustees serve as the officers of the Facilities Corporation. Outstanding bonds issued by the Facilities Corporation are those authorized under LB 605, passed in 2006. Repayment is from legislative appropriations and student fees. The long-term debt of the Facilities Corporation accrues to the NSCS Office, while the assets acquired as the result of renovations and new construction appear as assets at the individual Colleges.

Audit information from the Chadron State Foundation, Peru State Foundation, and Wayne State Foundation is included in the report as well. With implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, the Foundations of the Colleges have been deemed to be component units of the NSCS. Those Foundations' financial statements are presented separately on pages 14 through 16, 19 through 21, and 24 through 26 of this report.

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

	<b>Primary Government</b>	
	<b>2011</b>	<b>2010</b>
<b>Current Assets</b>	\$ 41,136,627	\$ 39,353,405
<b>Noncurrent Assets</b>		
Capital Assets, Net	146,870,164	141,294,341
Other Noncurrent Assets	26,299,353	14,670,656
Total Assets	214,306,144	195,318,402
<b>Current Liabilities</b>	12,296,404	12,205,248
<b>Noncurrent Liabilities</b>	43,805,013	37,902,884
Total Liabilities	56,101,417	50,108,132
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	119,131,410	104,989,997
Restricted	36,254,337	21,336,888
Unrestricted	2,818,980	18,883,385
Total Net Assets	\$ 158,204,727	\$ 145,210,270

NEBRASKA STATE COLLEGE SYSTEM  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

(Continued)

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

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Tuition and Fees, Net	\$ 23,410,086	\$ 19,659,493
Federal and State Grants and Contracts	16,459,103	15,141,442
Private Grants and Contracts	1,855,366	1,480,305
Auxiliary Enterprises, Net	14,991,800	12,902,558
Other Operating Revenues	712,793	624,992
Total Operating Revenues	57,429,148	49,808,790
<b>Operating Expenses</b>	99,700,185	90,848,787
<b>Operating Loss</b>	(42,271,037)	(41,039,997)
<b>Non-operating Revenues (Expenses)</b>		
State Appropriations	46,754,051	47,144,372
Capital Outlay	-	(2,065,766)
Investment Income	1,434,981	1,149,800
Interest on Capital Asset-Related Debt	(1,446,230)	(1,641,605)
Other Non-operating (Expenses)	(79,338)	(1,890,637)
Net Non-operating Revenues	46,663,464	42,696,164
<b>Income (Loss) before Other Revenues, Expenses, Or Gains</b>	4,392,427	1,656,167
<b>Capital Appropriations and Grants</b>	5,821,628	8,768,670
<b>Capital Contributions</b>	695,791	2,608,601
<b>Capital Facilities Fee</b>	2,056,250	2,107,711
<b>Increase in Net Assets</b>	12,966,096	15,141,149
<b>Net Assets, Beginning of Year</b>	145,210,270	129,630,040
<b>Prior Period Adjustment</b>	28,361	439,081
<b>Net Assets, Beginning of Year, As Restated</b>	145,238,631	130,069,121
<b>Net Assets, End of Year</b>	\$ 158,204,727	\$ 145,210,270

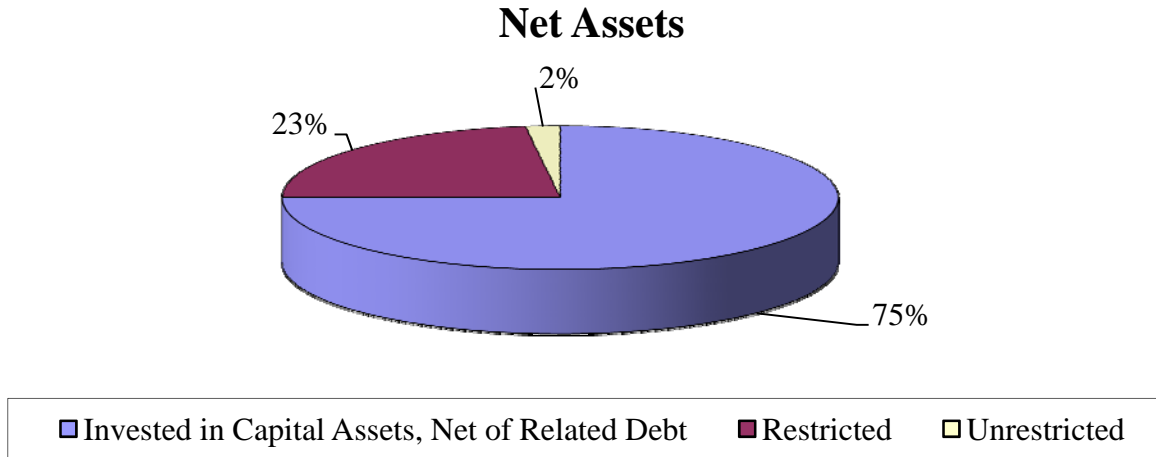


NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

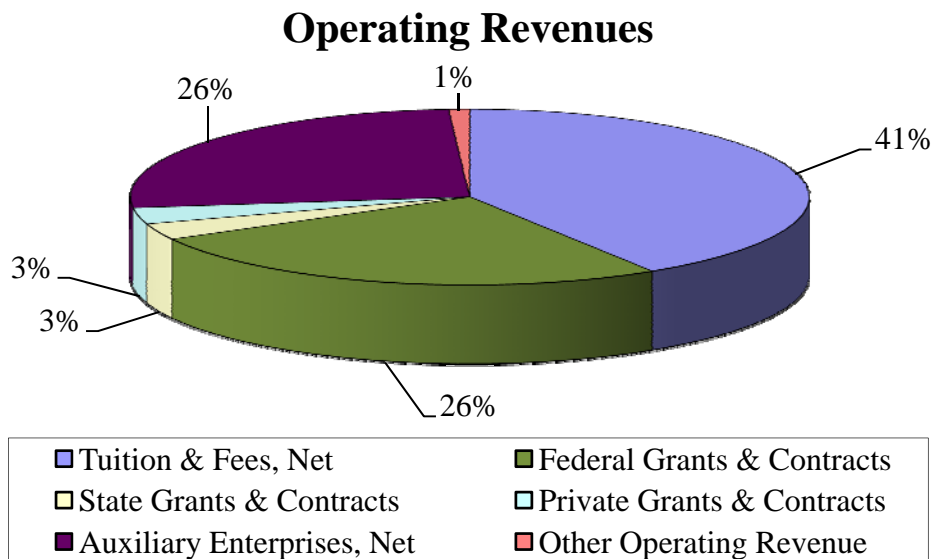
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
(Continued)

**CHANGES IN NET ASSETS**

At June 30, 2011, the NSCS had net assets of \$158.2 million, an increase of \$13 million or 8.9% over 2010. The net assets were comprised of Unrestricted - \$2.8 million; Restricted - \$36.3 million, and Invested in Capital Assets, Net of Related Debt - \$119.1 million.



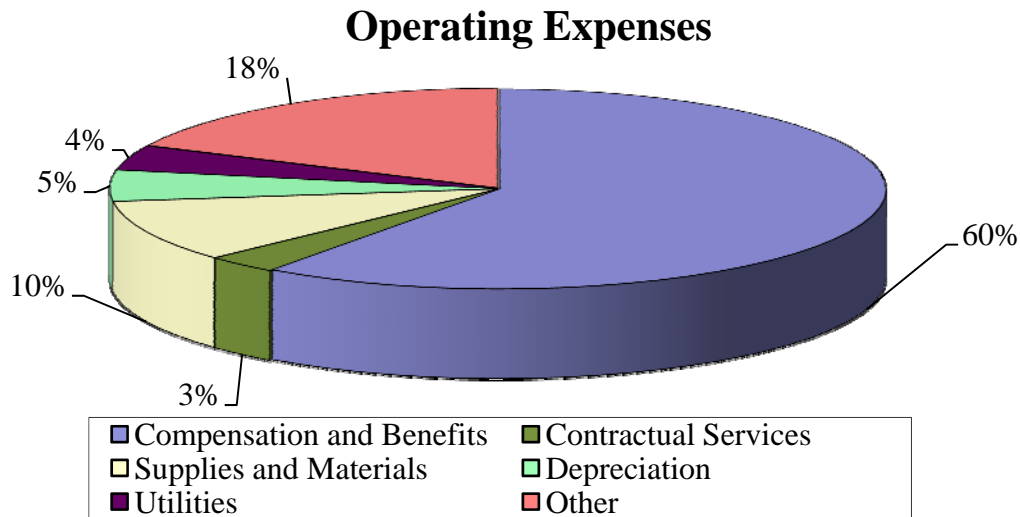
The operating revenues were \$57.4 million, compared to \$49.8 million in 2010, a 15.3% increase. Operating revenues include \$23.4 million in Net Tuition and Fees, Federal Grants and Contracts of \$15 million, State Grants and Contracts of \$1.5 million, Private Grants and Contracts of \$1.8 million, Net Auxiliary Enterprises of \$15 million, and Other Operating Revenues of \$0.7 million.



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

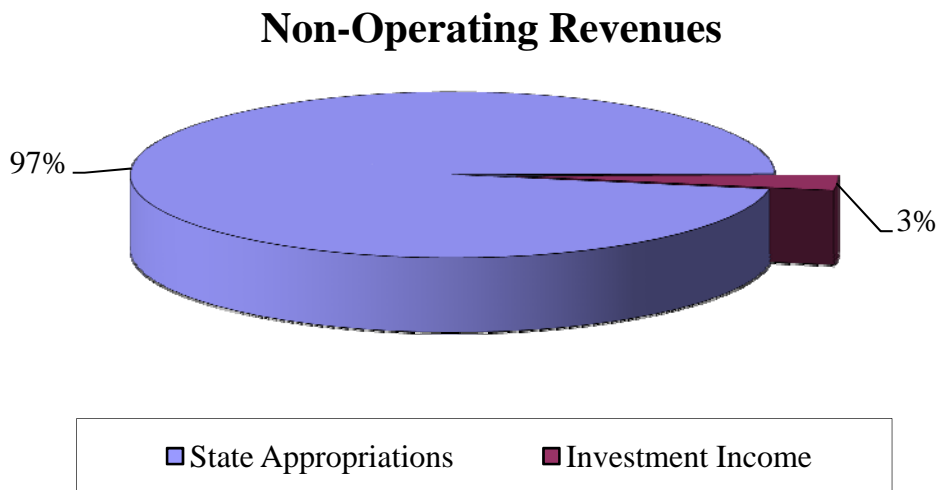
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
(Continued)

Operating Expenses for the year ended June 30, 2011, amounted to \$99.7 million, compared to \$90.8 million in 2010. Compensation and Benefits accounted for \$59.3 million, or 59.5% of the total; Contractual Services were \$3.1 million; Supplies and Materials, \$10.1 million; Depreciation, \$5.3 million; and Utilities, \$3.9 million. Other Operating Expenses consisted of Scholarships and Fellowships, \$6.4 million; Repairs and Maintenance, \$2.4 million; Communications, \$0.8 million, Food Service, \$5.1 million; and Other Operating Expenses, \$3.3 million.



The current year operating loss amounted to \$42.3 million, compared to an operating loss in 2010 of \$41 million.

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



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

(Continued)

The most significant change in the Schedule of Net Assets from the fiscal year ended June 30, 2010, to the fiscal year ended June 30, 2011, includes a significant increase in restricted cash and cash equivalents of \$11.7 million, most of which is related to the issuance of revenue bonds at Peru State and Wayne State during the fiscal year, with resulting construction funds restricted for residence hall renovations in progress. In addition, revenue bond surplus funds have been earmarked at both Peru and Wayne to assist with residence hall renovations. For previously existing bond issues, a total of \$3.7 million in long-term debt (principal and interest) was paid.

Tuition and Fee income increased \$3.8 million or 19.1%, and Auxiliary Enterprise revenues increased \$2.1 million, or 16.2% from the prior fiscal year; increases primarily attributable to NSCS's change in financial statement reporting of discounts and allowances. Expenses for auxiliary services reflected increased rates and participation, with food service costs up 10.5%. Federal and State Grants and Contracts increased \$1.3 million, or 8.7%. Private Grants and Contracts increased \$0.4 million, or 25.3%.

Non-operating Revenues reflect an overall increase due to one-time entries related to the implementation of a new Student Information System (NeSIS) during 2009-2010, while State appropriations remained relatively stable from 2009-2010 to 2010-2011. There was a 24.8% increase in Investment Income.

Operating Expenses for the year ended June 30, 2011, increased by \$8.9 million. Within the Operating Expenses category, Compensation and Benefits increased approximately \$0.4 million. The Compensation and Benefits category reflects the cost of the Supreme Court decision on faculty salaries received in September 2010 and paid to faculty during 2010-2011, as well as position eliminations made before and during the fiscal year. Health insurance premiums remained stable for 2010-2011 with no increase in rates. Utility costs increased by 2.1%.

A change in calculation of discounts and allowances occurred during the fiscal year ended June 30, 2011, and is further explained in footnote 10 in the Notes to Financial Statements.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

As of June 30, 2011, the NSCS had recorded \$215.6 million in gross capital assets. During the fiscal year ended June 30, 2011, the investment in land increased by \$0.4 million; the investment in buildings and improvements increased by \$16.5 million; the investment in infrastructure increased by \$3.7 million; furniture, fixtures, and equipment increased by \$7.1 million; library materials decreased by \$10.1 million as it is no longer accounted for as capital assets; art decreased by \$0.4 million, also due to its elimination from capital assets; and construction in progress decreased by \$15.9 million. At the end of the fiscal year, the NSCS had \$68.7 million in accumulated depreciation that left \$146.9 million in net capital assets.

At the end of the fiscal year, the NSCS had \$46.8 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of \$42.7 million and \$3.5 million in accrued compensated absences. Additional debt of \$8.6 million was issued and previously existing bond obligations were reduced by \$2.3 million.

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 WSC Carhart Science renovation project, which included funding from LB 605, LB 309 building renewal task force, College cash funds, and privately raised funds. Phase II is currently underway using College cash funds and privately raised funds. Plans are in process for the final Phase III of the Carhart project. All projects using bond proceeds from LB 605 have been completed, except for a small amount of funding for the CSC Administration building renovation project. While construction work on the project is complete, some funds remain in the project that are reserved for artwork and final miscellaneous expenditures. With the issuance of revenue bonds for Peru State and Wayne State, renovation projects at WSC Neihardt Hall and PSC Morgan Hall are underway. Construction at the College Center at South Sioux City (CCSSC), in partnership with Northeast Community College is now complete and the CCSSC opened in March 2011, providing access to higher education for a population previously underserved. Wayne State's share of this project was completed using a State appropriation as well as privately raised funds. Various deferred repair and fire and life safety upgrades are in progress at all three Colleges.

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

**ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE**

State funding for the NSCS is relatively stable for the 2011-2013 biennium. The Governor and Legislature approved state funding for the Nebraska State College System at \$44,846,037 for 2011-2012, a decrease of 1.2%. The reduction is mainly related to the depreciation assessment program, which began as part of LB 1100 (1998) and was permanently eliminated for 2011-2012. This resulted in the loss of funding for the program but also a corresponding elimination in the requirement for the Colleges to pay that funding into a building assessment fund. The State appropriation for 2012-2013, as approved by the Governor and Legislature is \$45,450,893, an increase of 1.3% over 2011-2012.

The Board of Trustees increased tuition rates for 2011-2012 by 5%.

In accordance with the NSCS Bargaining Unit agreements for 2011-2013, faculty and professional staff will receive 1% increases each 2011-2012 and 2012-2013, while support staff will receive 0% and 1% each year respectively, while maintaining longevity increases.

In addition to receiving no premium increase in health insurance rates for 2011-2012, the NSCS has also been notified that premium rates for the 2012-2013 year will be limited to an increase of no more than 4% of the current rates.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

(Continued)

Enrollment at the State Colleges (annual FTE) remained relatively stable for 2010-2011. Fall enrollments are expected to also remain stable for 2011-2012. The NSCS continues to engage in an increased emphasis on enrollment management and marketing.

In October 2010, \$5 million in revenue bonds were issued under the NSCS Master Resolution to renovate Pile Hall at WSC. An additional \$3.6 million in revenue bonds were issued in January 2011 to renovate Morgan Hall at PSC. Both renovation projects include the complete renovation of the interiors of the existing buildings, replacing outdated mechanical and electrical systems to provide energy efficient heat and air conditioning, reconfiguration of restrooms, and life safety code improvements. While the Pile Hall renovation will result in just a few additional rooms available to students, the Morgan Hall renovation will allow 74 beds in the west wing back into service that have not been available for use for the past several years due to conditions.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2011

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 27,136,538
Restricted Cash and Cash Equivalents	11,132,543
Accounts Receivable, Net of Allowance	1,211,777
State Grants and Appropriations Receivable	353,609
Other Receivables	264,481
Inventories	133,294
Loans to Students, Net	367,014
Prepaid Expenses	518,619
Deposits with Vendors	18,752
	41,136,627

**Non-current Assets**

Restricted Cash and Cash Equivalents	23,392,195
Restricted Investments Held by Trustee	330,188
Investment Income Receivable	2,636
Loans to Students, Net	2,018,942
Capital Assets, Net	146,870,164
Deferred Bond Issue Costs, Net	555,392
	173,169,517
Total Non-current Assets	173,169,517
Total Assets	214,306,144

**Liabilities**

**Current Liabilities**

Accounts Payable and Accrued Liabilitie	7,933,467
Accrued Compensated Absences	346,303
Other Liabilities	173,021
Deferred Revenue	219,301
Interest Payable	884,738
Long-Term Debt - Current Portion	2,524,647
Deposits Held in Custody for Others	214,927
	12,296,404

**Non-current Liabilities**

Accrued Compensated Absences	3,132,414
Unamortized Bond Premium	191,885
Other Non-current Liabilities	102,525
Long-Term Debt	40,378,189
	43,805,013
Total Non-current Liabilities	43,805,013
Total Liabilities	56,101,417

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF NET ASSETS**  
June 30, 2011

<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	119,131,410
Restricted for	
Expendable	
Loans	2,637,254
Debt Service	26,993,199
Plant	3,280,697
Other	3,343,187
Unrestricted	<u>2,818,980</u>
 Total Net Assets	 <u><u>\$ 158,204,727</u></u>

The accompanying notes are an integral part of the financial statements

(Concluded)

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

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

June 30, 2011

**ASSETS**

Cash and Cash Equivalents - Unrestricted	\$	1,232,807
Cash and Cash Equivalents - Restricted		267,896
Investments		10,520,251
Contributions Receivable, Net of Allowance for Uncollectible Pledges of \$48,009 for 2011		1,325,176
Assets Held for Sale		-
Prepaid Expenses		7,184
Certificates of Deposit		811,926
Other Assets		3,449,541
Property and Equipment, Net of Accumulated Depreciation		74,975
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>17,689,756</b>

**LIABILITIES AND NET ASSETS**

Accounts Payable	\$	-
Wages Payable		66,357
Scholarships Payable		233,412
Deferred Revenue		53,473
Due to Other Agencies		413,423
<b>TOTAL LIABILITIES</b>		<b>766,665</b>

Unrestricted Net Assets:

Operating Fund (Deficit)		(25,993)
CSC Endowment		983,137
CSC Quasi Endowment		260,101
Greatest Need		743,778
Total Unrestricted Net Assets		1,961,023

Temporarily Restricted Net Assets:

Donor Designated		3,043,767
Named Endowment Activity		1,319,298
Athletic Endowment		-
Total Temporarily Restricted Net Assets		4,363,065

Permanently Restricted Net Assets:

Named Endowment		10,599,003
<b>TOTAL NET ASSETS</b>		<b>16,923,091</b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>17,689,756</b>
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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, 2010

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	379,518
Unconditional Promises to Give		6,960
Student Loans Receivable		5,903
Interest Receivable		6,889
Prepaid Expenses		107,087
Current Portion of Notes Receivable		18,982
TOTAL CURRENT ASSETS		525,339

**PROPERTY AND EQUIPMENT**

Land		65,115
Office Furniture and Fixtures		50,193
Rental Property		86,116
Vehicles		18,650
TOTAL PROPERTY AND EQUIPMENT		220,074
Less Accumulated Depreciation		44,328
NET PROPERTY AND EQUIPMENT		175,746

**OTHER ASSETS**

Investments		9,495,703
Notes Receivable, Less Current Portion		177,836
TOTAL OTHER ASSETS		9,673,539
TOTAL ASSETS	\$	10,374,624

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable	\$	7,837
Accrued Compensation		39,423
Accrued Expenses		5,046
Refundable Deposits		82,633
Current Portion of Note Payable		3,248
Current Portion of Gift Annuity		33,530
TOTAL CURRENT LIABILITIES		171,717

**LONG-TERM LIABILITIES**

Note Payable		9,249
Gift Annuity, Less Current Portion		81,908
Deferred Compensation Payable		-
TOTAL LONG-TERM LIABILITIES		91,157
TOTAL LIABILITIES		262,874

**NET ASSETS**

Unrestricted Net Assets:		
Operating		1,595,080
Board Designated		1,221,804
TOTAL UNRESTRICTED NET ASSETS		2,816,884
Temporarily Restricted		1,883,066
Permanently Restricted		5,411,800
TOTAL NET ASSETS		10,111,750
TOTAL LIABILITIES AND NET ASSETS	\$	10,374,624

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, 2011

**ASSETS**

Cash and Cash Equivalents - Unrestricted	\$	31,296
Cash and Cash Equivalents - Restricted		440,980
Accrued Interest		278
Prepaid Expenses & Misc. Receivables		-
Inventory		4,979
Unconditional Promises to Give		807,153
Investments		14,136,746
Real Estate		206,300
Cash Value Life Insurance		72,609
Assets Restricted for Annuity Contracts		
Investments		1,064,132
Real Estate		-
Assets Held in Perpetual Trust		
Investments		816,887
		816,887
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>17,581,360</b>

**LIABILITIES AND NET ASSETS**

Accounts & Faculty Grants Payable	\$	47,962
Deferred (Unearned) Event Revenue		8,345
Annuities Payable		546,731
Total Liabilities		603,038

**Net Assets:**

Unrestricted:		
Undesignated		1,945,624
Endowment Funds Deficit		(26,955)
Designated		224,559
Total Unrestricted Net Assets		2,143,228
Temporarily Restricted		3,510,385
Permanently Restricted		11,324,709
Total Net Assets		16,978,322
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>17,581,360</b>

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
Fiscal Year Ended June 30, 2011

**Operating Revenues**

Tuition and Fees (net of scholarship allowances and institutional waivers totaling \$10,609,545)	\$ 23,410,086
Federal Grants and Contracts	14,968,814
State Grants and Contracts	1,490,289
Private Grants and Contracts	1,855,366
Auxiliary Enterprises (net of scholarship allowances and institutional waivers totaling \$3,403,306)	14,991,800
Other Operating Revenues	712,793
	712,793
Total Operating Revenues	57,429,148

**Operating Expenses**

Compensation and Benefits	59,330,812
Contractual Services	3,099,147
Supplies and Materials	10,101,337
Scholarships and Fellowships	6,341,915
Depreciation	5,360,016
Utilities	3,912,583
Repairs and Maintenance	2,394,278
Communications	755,016
Food Service	5,072,760
Other	3,332,321
	3,332,321
Total Operating Expenses	99,700,185

**Operating Loss** (42,271,037)

**Non-operating Revenue (Expenses)**

State Appropriations	46,754,051
Investment Income	1,434,981
Interest on Capital Asset-Related Debt	(1,446,230)
Other Non-operating Expense	(79,338)
	(79,338)
Net Non-operating Revenues (Expenses)	46,663,464

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
Fiscal Year Ended June 30, 2011

<b>Income Before Other Revenues, Expenses, or Gains</b>	4,392,427
<b>Capital Facilities Fees</b>	2,056,250
<b>Capital Contributions</b>	695,791
<b>Capital Appropriations and Grants</b>	<u>5,821,628</u>
<b>Increase in Net Assets</b>	<u>12,966,096</u>
<b>Net Assets, Beginning of Year, As Previously Stated</b>	145,210,270
<b>Prior Period Adjustment - Asset Capitalization (Note 13)</b>	<u>28,361</u>
<b>Net Assets, Beginning of Year, As Restated</b>	<u>145,238,631</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 158,204,727</u></u>

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

(Concluded)

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

**CHADRON STATE FOUNDATION**  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

<b>REVENUES, GAINS (LOSSES), AND OTHER SUPPORT</b>	
Fundraising Income	\$ 1,254,174
Principle Contributions to Named Endowments	1,595,741
Management Fees	218,659
State Income	195,719
Unrealized Gain on Investments	595,204
Realized Gain on Investments	910,917
Change in the Value of Trusts	753,555
Interest and Dividend Income	267,697
Event Income	54,003
Miscellaneous Income	6,862
	<hr/>
Total Revenues, Gains (Losses), and Other Support	5,852,531
Transfer Between Net Assets	-
Net Assets Released From Restrictions	-
	<hr/>
Total Support and Reclassifications	5,852,531
	<hr/>
<b>EXPENSES</b>	
Program Services	751,724
General and Management	380,788
Fundraising	585,984
	<hr/>
Total Expenses	1,718,496
	<hr/>
<b>CHANGE IN NET ASSETS</b>	4,134,035
<b>NET ASSETS, BEGINNING OF YEAR</b>	12,789,056
	<hr/>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 16,923,091</u>

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

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

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

**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2010

**PUBLIC SUPPORT AND REVENUE**

Contributions	\$ 532,771
Special Events	61,781
Interest and Dividends	257,118
Realized Loss on Sale of Investments	422,959
Unrealized Gain on Investments	424,398
Change in Value of Annuities	8,033
Miscellaneous Income	2,452
Net Assets Released From Restrictions	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>1,709,512</u>

**EXPENSES**

Program Expenses	491,518
Management Expenses	229,482
Fundraising Expenses	<u>207,253</u>
TOTAL EXPENSES	<u>928,253</u>

INCREASE/(DECREASE) IN NET ASSETS 781,259

**NET ASSETS - BEGINNING OF YEAR** 9,330,491

**NET ASSETS - END OF YEAR** \$ 10,111,750

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, 2011

<b>REVENUES AND OTHER SUPPORT</b>	
Gift/Contributions Income	\$ 2,622,345
Interest and Dividends	273,456
Net Gain (Loss) on Investments	2,184,744
Other Non Gift Income	240,539
	<hr/>
Total Revenue and Other Support	5,321,084
	<hr/>
Net Assets Released From Restrictions	-
	<hr/>
<b>EXPENSES</b>	
General and Administrative	205,702
Fundraising	304,462
Program Expenses	2,917,568
	<hr/>
Total Expenses Before Amortization	3,427,732
Amortization of Annuity Contracts	65,547
	<hr/>
Total Expenses	3,493,279
	<hr/>
NET INCREASE (DECREASE) IN NET ASSETS	1,827,805
	<hr/>
NET ASSETS, BEGINNING OF YEAR	15,150,517
	<hr/>
NET ASSETS, END OF YEAR	\$ 16,978,322
	<hr/> <hr/>

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2011

<b>Cash Flows From Operating Activities</b>	
Tuition and Fees	\$ 22,844,426
Grants and Contracts	18,314,469
Payments to Suppliers	(24,021,658)
Payments for Utilities	(3,910,982)
Payments to Employees	(59,947,335)
Loans Issued to Students	(256,351)
Collections of Loans to Students	385,138
Sales and Services of Auxiliary Enterprises	14,893,654
Other Payments	<u>(5,861,798)</u>
Net Cash Used in Operating Activities	<u>(37,560,437)</u>
<b>Cash Flows From Non-capital Financing Activities</b>	
State Appropriations	48,078,402
Grants and Contracts	(13,797)
Direct Lending Receipts	30,519,002
Direct Lending Payments	(30,519,002)
Other Receipts (Payments)	<u>(62,994)</u>
Net Cash Provided by Non-capital Financing Activities	<u>48,001,611</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Receipt from State for Capital Purchases	1,294,493
Proceeds from Capital Debt	8,600,000
Capital Contributions	684,338
Purchase of Capital Assets	(10,856,191)
Principal Paid on Capital Debt	(2,304,647)
Interest Paid on Capital Debt	(1,399,044)
Capital Facilities Fees	2,027,634
Other	7,965
Capital Appropriations	<u>4,527,135</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,581,683</u>
<b>Cash Flows From Investing Activities</b>	
Purchase/Sale of Investments	(57,053)
Investment Income	<u>1,435,014</u>
Net Cash Provided by Investing Activities	<u>1,377,961</u>
	(Continued)



NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**STATEMENT OF CASH FLOWS**  
Fiscal Year Ended June 30, 2011

<b>Increase (Decrease) in Cash and Cash Equivalents</b>	14,400,818
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>47,260,458</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 61,661,276</u></u>
 <b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>	
Cash and Cash Equivalents	\$ 27,136,538
Restricted Cash and Cash Equivalents - Current	11,132,543
Restricted Cash and Cash Equivalents - Non-current	<u>23,392,195</u>
Total Cash and Cash Equivalents	<u><u>\$ 61,661,276</u></u>
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>	
Operating Loss	\$ (42,271,037)
Depreciation/Amortization Expense	5,360,016
Changes in Operating Assets and Liabilities	
Receivables, Net	(330,834)
Inventories	(158)
Prepays and Other	(3,964)
Accounts Payable and Accrued Liabilities	(132,390)
Accrued Compensated Absences	(21,002)
Other Assets and Liabilities	<u>(161,068)</u>
<b>Net Cash Used in Operating Activities</b>	<u><u>\$ (37,560,437)</u></u>
 <b>Supplemental Cash Flows Information</b>	
Accounts Payable Incurred for Capital Asset Purchases	\$ 1,735,800

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

(Concluded)

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

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

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2011

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase (Decrease) in Net Assets	\$ 4,134,035
Adjustments to Reconcile Increase (Decrease) in Net Assets	
To Net Cash Provided (Used) by Operating Activities	
Depreciation	30,302
Change in Allowance for Doubtful Accounts	12,340
Unrealized Loss (Gain) on Investments	(910,917)
Realized Loss (Gain) on Investments	(753,483)
Change in the Value of Trusts	(595,204)
Change in Estate Bequests	(586,332)
Property Support to College	-
Change in Beneficial Interest in Annuity	2,391
Proceeds from Contributions Restricted for	
Investment in Named Endowments	(1,595,741)
(Increase) Decrease In:	
Contributions Receivable	(177,653)
Prepaid Assets	(1,152)
Increase (Decrease) In:	
Accounts Payable	(15,589)
Wages Payable	27,434
Scholarships Payable	(104,670)
Deferred Revenue	(2,390)
Due to Other Agencies	(123,993)
Net Cash Provided (Used) by Operating Activities	<u>(660,622)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

(Increase) Decrease in Cash Surrender Value of Life Insurance	(848)
Proceeds From Sale of Investments	765,079
Purchase of Investments	(957,877)
Purchase of Certificates of Deposit	1,994
Purchase of Property	-
Sale of Property	-
Net Cash Used by Investing Activities	<u>(191,652)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Contributions Restricted for	
Investment in Named Endowments	1,595,741
Net Cash Provided by Financing Activities	<u>1,595,741</u>
Net Increase in Cash and Equivalents	743,467
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>757,236</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,500,703</u></u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash and Equivalents - Unrestricted	\$ 1,232,807
Cash and Equivalents - Restricted	267,896
Total Cash and Equivalents	<u><u>\$ 1,500,703</u></u>

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

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

**PERU STATE FOUNDATION**  
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)  
**STATEMENT OF CASH FLOWS**  
December 31, 2010

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase/(Decrease) in Net Assets	\$ 781,259
Adjustments to Reconcile Increase/(Decrease) in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	6,769
Unrealized (Gain)/Loss on Investments	(424,398)
Realized Loss on Sale of Investments	(422,959)
Gift of Property and Equipment	-
In-kind Contributions	-
Deferred Compensation	-
Bad Debts	117
Changes in Current Assets and Current Liabilities:	
Decrease in Unconditional Promises to Give	1,351
(Increase)/Decrease in Student Loans Receivable	(2,646)
Decrease in Interest Receivable	642
Increase in Prepaid Expenses	6,290
Increase in Accounts Payable	(6,822)
(Decrease)/Increase in Accrued Compensation	(8,418)
Increase in Accrued Expenses	1,142
Increase in Refundable Deposits	(31,506)
Net Cash Used by Operating Activities	<u>(99,179)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	795,948
Purchases of Investments	(513,750)
Payments Received on Notes Receivable	18,340
Purchases of Property and Equipment	-
Net Gift Annuity (Payments)/Contributions	(47,561)
Net Cash Provided By Investing Activities	<u>252,977</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from Borrowing	-
Repayment of Borrowing	(3,030)
Net Cash Provided By Financing Activities	<u>(3,030)</u>

**CHANGES IN CASH AND CASH EQUIVALENTS**

150,768

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

228,750

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 379,518

**SUPPLEMENTAL DISCLOSURE, CASH PAID DURING  
YEAR FOR INTEREST**

\$ 861

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, 2011

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$	1,827,805
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation		5,700
Amortization of Annuity Obligations		65,547
Non Cash Contributions		(34,107)
Net Loss (Gain) on Investments & (Reinvested Income)		(2,184,745)
(Increase) Decrease in Operating Non-Cash Assets:		
Accrued Interest Receivable/Prepays & Misc. Receivables		190
Unconditional Promises to Give		307,214
Inventory		5,576
Cash Value Life Insurance		121,383
Increase (Decrease) in Operating Non-Cash Liabilities:		
Accounts Payable/Faculty Grants Payable		50,231
Net Cash Provided by Operating Activities		164,794

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net (Purchases) of Investments		14,525
Net Cash (Used) by Investing Activities		14,525

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Annuity Contracts		45,090
Payments on Annuity Contracts		(108,238)
Net Cash Provided (Used) by Financing Activities		(63,148)

**NET CHANGE IN CASH & CASH EQUIVALENTS**

		116,171
Cash and Cash Equivalents, Beginning of Year		356,105

**CASH AND CASH EQUIVALENTS, END OF YEAR**

	\$	472,276
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The accompanying notes are an integral part of the financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2011

**1. Summary of Significant Accounting Policies**

***Organization***

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

***Reporting Entity***

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

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

***Blended Component Unit***

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

***Discretely Presented Component Units***

In implementing GASB Statement No. 39, the State College Board of Trustees determined Chadron State, Peru State, and Wayne State Foundations (Foundations) are legally separate, tax-exempt nonprofit foundations incorporated in the State of Nebraska. The Foundations act primarily as fund-raising organizations to supplement the resources available to each Foundation's respective College in support of its programs. Although the Colleges do not control the timing or amount of receipts from the Foundations, the majority of resources or income the Foundations hold and invest is restricted to the activities of each Foundation's respective College by its donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of their respective Colleges, the Foundations are considered component units of the NSCS and are discretely presented on separate pages in this report.

The Foundations report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations' audited financial information as it is presented (see Note 12).

During the year ended June 30, 2011, Chadron State and Wayne State Foundations distributed \$751,724 and \$2,917,568, respectively to their Colleges; and during the year ended December 31, 2010, Peru State Foundation distributed \$491,518 to PSC for both restricted and unrestricted purposes. Separate audit reports were issued by each foundation and can be obtained from their respective administrative offices or by contacting the Nebraska State College System at P.O. Box 94605, Lincoln, Nebraska 68509-4605.

***Basis of Accounting and Presentation***

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

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

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

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

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

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

***Use of Estimates***

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

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

*Cash and Cash Equivalents*

The NSCS cash and cash equivalents are stated at fair value. Cash is deposited with the Nebraska State Treasurer on a pooled basis in a State fund. Income earned by the pool is allocated to the NSCS based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which 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, 2011.

The NSCS considers all liquid investments with original maturities of twelve months or less to be cash equivalents. At June 30, 2011, cash equivalents consisted primarily of money market funds.

*Income Tax Status*

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

*Investments and Investment Income*

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

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

*Accounts Receivable*

The NSCS's accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts was \$627,489 at June 30, 2011, and is identified by College as follows:

WSC	\$	204,789
CSC	\$	320,000
PSC	\$	102,700



NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

*Deferred Bond Issue Costs*

The NSCS's bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2011, was \$555,392, and is identified by College as follows:

WSC	\$	104,315
CSC	\$	99,363
PSC	\$	22,389
NSCS Office	\$	329,325

*Inventories*

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

*Loans to Students*

The NSCS makes loans to students under the Federal Perkins Loan Program; also, small temporary loans are provided to students from the WSC Foundation. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$227,723 at June 30, 2011, and is identified by College as follows:

WSC	\$	138,023
CSC	\$	89,700

*Capital Assets*

The NSCS's capital assets are recorded at cost as of the date of acquisition, or fair value at the date of donation if acquired by gift. Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Also, all land, buildings, infrastructure, and construction in progress are capitalized. For assets purchased after July 1, 2010, depreciation/amortization is computed using the straight-line method over the estimated useful life of each asset beginning with the month of purchase. Prior to July 1, 2010, depreciation/amortization was computed using the straight-line method over the estimated useful life of each asset, with one-half of one year's depreciation/amortization taken in the first and last years of the asset life. The following estimated useful lives are being used by the NSCS:

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

Board policy was revised and implemented effective July 1, 2010, to require the expensing of art objects, specimens, artifacts and collections, including library materials, so long as the items meet three conditions in accordance with GASB 34. See Note 11 for the effect of this revised policy for the fiscal year ended June 30, 2011.

***Compensated Absences***

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

***Deferred Revenue***

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

***Classification of Revenues***

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

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies** (Concluded)

*Scholarship Discounts and Allowances*

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances and institutional waiver allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Such allowances are the difference between the stated charge for goods and services provided by the NSCS, and the amount that is paid by students and/or third parties making payments on the students' behalf or via institutional waivers. 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 scholarship allowances and institutional waivers on tuition and fees and auxiliary enterprises for the year ended June 30, 2011, were \$10,609,545 and \$3,403,306, respectively and are identified by College as follows:

		Tuition and Fees		Auxiliary Enterprises
WSC	\$	4,399,869	\$	2,021,269
CSC	\$	3,930,159	\$	811,147
PSC	\$	2,279,517	\$	570,890

**2. Deposits, Investments, and Investment Return**

*Deposits*

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

Additional information on the deposit and investments portfolio including investment policies, risk, and type of investment can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011.

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

At June 30, 2011, the carrying value of the NSCS's bank deposits was \$17,810,949 and the bank balance was \$17,821,374. The bank balance at June 30, 2011, was entirely covered by FDIC and collateral held by the pledging institution's agent in other than the NSCS's name. State law requires collateralization of all deposits with Federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies and instrumentalities of the State of Nebraska; or a surety bond having an aggregate value at least equal to the amount of the deposits. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

***Investments***

At June 30, 2011, the NSCS's investment balances, which had maturities of less than one to three years, had fair values as follows:

Investment Type		
Debt Securities		
Corporate Debt	\$	32,179
Other Investments		
Equity Securities		298,009
	\$	330,188

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

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

	Fair Value	Quality Ratings		
		AAA	AA	Unrated
Corporate Debt	\$ 32,179	\$ -	\$ 21,179	\$ 11,000
Equity Securities	298,009	-	-	298,009
	\$ 330,188	\$ -	\$ 21,179	\$ 309,009

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

*Concentration of Credit Risk.* The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 10% are in corporate debt and 90% are equity securities.

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

***Summary of Fair Values***

The fair values of deposits and investments shown above are included in the Statement of Net Assets as follows:

Fair Value	
Cash	\$ 5,350
Deposits:	
Bank Deposits	17,957,642
Short Term Investment Pool	43,698,284
Investments	<u>330,188</u>
Total as of June 30, 2011	<u>\$ 61,991,464</u>

Included in the Statement of Net Assets	
Cash and Cash Equivalents	\$ 27,136,538
Restricted Cash and Cash Equivalents	34,524,738
Investments held by Trustee	<u>330,188</u>
	<u>\$ 61,991,464</u>

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Capital Assets**

The NSCS capital assets activity for the year ended June 30, 2011, was:

*Assets*

	<b>Beginning Balance</b> (as restated see Note 11)	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 690,824	\$ 366,170	\$ -	\$ 1,056,994
Building and Improvements	141,837,744	17,126,813	632,237	158,332,320
Infrastructure	22,131,166	3,663,679	-	25,794,845
Furniture, Fixtures, and Equipment	7,656,279	7,266,518	127,588	14,795,209
Construction in Progress	<u>31,573,363</u>	<u>9,298,645</u>	<u>25,229,948</u>	<u>15,642,060</u>
Total Assets	<u>203,889,376</u>	<u>37,721,825</u>	<u>25,989,773</u>	<u>215,621,428</u>

*Accumulated Depreciation/Amortization*

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building and Improvements	52,043,576	3,157,981	559,666	54,641,891
Infrastructure	7,985,363	878,272	-	8,863,635
Furniture, Fixtures, and Equipment	<u>4,033,989</u>	<u>1,312,734</u>	<u>100,985</u>	<u>5,245,738</u>
Total Accumulated Depreciation/ Amortization	<u>64,062,928</u>	<u>5,348,987</u>	<u>660,651</u>	<u>68,751,264</u>
Net Capital Assets	<u>\$ 139,826,448</u>	<u>\$ 32,372,838</u>	<u>\$ 25,329,122</u>	<u>\$ 146,870,164</u>

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Capital Assets (Concluded)**

*Net Assets by College*

	<u>WSC</u>	<u>CSC</u>	<u>PSC</u>	<u>NSCS Office</u>	<u>Balance</u>
Land	\$ 999,898	\$ 49,395	\$ 7,701	\$ -	\$ 1,056,994
Building and Improvements	48,272,023	28,018,970	27,399,436	-	103,690,429
Infrastructure	8,980,097	4,119,875	3,831,238	-	16,931,210
Furniture, Fixtures, and Equipment	924,786	527,405	441,857	7,655,423	9,549,471
Construction in Progress	8,893,018	355,592	6,393,450	-	15,642,060
Net Capital Assets	<u>\$ 68,069,822</u>	<u>\$ 33,071,237</u>	<u>\$ 38,073,682</u>	<u>\$ 7,655,423</u>	<u>\$ 146,870,164</u>

**4. Long-Term Liabilities**

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Loan Obligations Payable	\$ 196,818	\$ -	\$ 18,982	\$ 177,836	\$ 19,647
Revenue and Refunding Bonds	16,425,000	8,600,000	830,000	24,195,000	990,000
Facilities Corporation Bonds	19,985,000	-	1,455,000	18,530,000	1,515,000
Total Long-Term Liabilities	<u>36,606,818</u>	<u>8,600,000</u>	<u>2,303,982</u>	<u>42,902,836</u>	<u>2,524,647</u>
Other Long-Term Liabilities:					
Accrued Compensated Absences	3,499,718	-	21,001	3,478,717	346,303
Unamortized Bond Premium	213,107	-	21,222	191,885	-
Other Liabilities	442,315	-	166,769	275,546	173,021
Total Other Long-Term Liabilities	<u>4,155,140</u>	<u>-</u>	<u>208,992</u>	<u>3,946,148</u>	<u>519,324</u>
Total Long-Term Liabilities	<u>\$ 40,761,958</u>	<u>\$ 8,600,000</u>	<u>\$ 2,512,974</u>	<u>\$ 46,848,984</u>	<u>\$ 3,043,971</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

*Termination Benefits*

The NSCS has two programs for support staff in the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSME) bargaining unit which must be accounted for under GASB Statement No. 47, *Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program. Under the *voluntary retirement settlement program*, employees who are 55 years of age or more on July 1, of the year in which he or she chooses to retire, and have ten or more years of consecutive service within the NSCS will be paid one-quarter of their prior year base salary in 12 equal monthly installments following termination of employment. In addition, NSCS will pay the employee's health/dental insurance (State and employee burden) costs for the last insurance plan the employee had during employment with the NSCS during the 12-month period following termination of employment until the employee is Medicare eligible, at which time the NSCS will pay an amount equivalent to the cost of the Gold Plus Medicare Supplemental Plan for the payout period remaining. Under the current bargaining agreement, this plan was only available to those employees who retired on July 1, 2009, or June 30, 2010. Under the *early retirement incentive program*, employees who have completed at least ten years of continuous service within the NSCS and are 60 years of age or older will be paid the full cost (State and employee burden) of the employee's health/dental insurance he or she had during the last year of employment prior to retirement. The NSCS will continue to pay the health/dental insurance until the employee becomes Medicare eligible.

At June 30, 2011, six employees at WSC, two employees at PSC, and nine employees at CSC were participating in the NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. Liability amounts are reflected in the Accrued Compensated Absences line item on the Statement of Net Assets, the Combining Schedule of Net Assets, and the footnote amount above. All termination benefits are shown at present cost.

	<u>Ending Balance</u>	<u>Current Portion</u>
WSC	\$ 103,213	\$ 60,106
CSC	78,601	41,207
PSC	42,890	14,133
Total	\$ 224,704	\$ 115,446

***Student Fees and Facilities Revenue and Refunding Bonds Series 2002***

In August 2002, the NSCS Board of Trustees authorized the issuance of \$14,315,000 of Student Fees and Facilities Revenue and Refunding Bonds Series 2002. The purpose of the issuance was to provide payment and redemption of outstanding Revenue Bonds and



NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

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

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

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

***Student Fees and Facilities Revenue Bonds Series 2010***

In September 2010, the NSCS Board of Trustees authorized the issuance of \$5,000,000 of Student Fee and Facilities Revenue Bonds Series 2010. The purpose of the issuance was to finance improvements to Wayne State's Pile Hall. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amounts of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The \$5,000,000 in bonds bear interest at rates from 0.6% to 4.0% with payments due from 2011 to 2030.

***Student Fees and Facilities Revenue Bonds Series 2011***

In November 2010, the NSCS Board of Trustees authorized the issuance of \$3,600,000 of Student Fee and Facilities Revenue Bond Series 2011. The purpose of the issuance was to finance improvements to Peru State's Morgan Hall. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

revenue facilities and special student fees are pledged for payment of the principal amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The \$3,600,000 in bonds bear interest at rates from 0.75% to 5.05% with payments due from 2011 to 2031.

***Nebraska State Colleges Facilities Corporation Bonds***

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

***PSC Loan Obligation***

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

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

<b>PSC Loan Obligation Payable</b>			
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 19,647	\$ 6,224	\$ 25,871
2013	20,334	5,537	25,871
2014	21,046	4,825	25,871
2015	21,783	4,088	25,871
2016	22,545	3,326	25,871
2017-2019	72,481	5,132	77,613
Total	\$ 177,836	\$ 29,132	\$ 206,968

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

**WSC Revenue and Refunding Bonds**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 635,000	\$ 507,307	\$ 1,142,307
2013	605,000	467,675	1,072,675
2014	625,000	449,594	1,074,594
2015	640,000	429,988	1,069,988
2016	665,000	408,496	1,073,496
2017-2021	3,335,000	1,660,170	4,995,170
2022-2026	3,495,000	969,245	4,464,245
2027-2031	2,585,000	211,100	2,796,100
Total	<u>\$ 12,585,000</u>	<u>\$ 5,103,575</u>	<u>\$ 17,688,575</u>

**CSC Revenue and Refunding Bonds**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 235,000	\$ 239,861	\$ 474,861
2013	200,000	231,823	431,823
2014	205,000	223,974	428,974
2015	215,000	215,571	430,571
2016	220,000	206,653	426,653
2017-2021	1,260,000	872,760	2,132,760
2022-2026	1,610,000	509,256	2,119,256
2027-2029	1,185,000	90,875	1,275,875
Total	<u>\$ 5,130,000</u>	<u>\$ 2,590,773</u>	<u>\$ 7,720,773</u>

**PSC Revenue and Refunding Bonds**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 120,000	\$ 255,692	\$ 375,692
2013	255,000	264,946	519,946
2014	260,000	258,730	518,730
2015	270,000	251,635	521,635
2016	275,000	243,581	518,581
2017-2021	1,535,000	1,060,129	2,595,129
2022-2026	1,905,000	693,441	2,598,441
2027-2031	1,600,000	237,156	1,837,156
2032	260,000	6,565	266,565
Total	<u>\$ 6,480,000</u>	<u>\$ 3,271,875</u>	<u>\$ 9,751,875</u>

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

**Facilities Corporation Bonds**

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,515,000	\$ 778,582	\$ 2,293,582
2013	1,575,000	716,782	2,291,782
2014	1,635,000	644,407	2,279,407
2015	1,720,000	560,532	2,280,532
2016	1,805,000	479,175	2,284,175
2017-2021	10,280,000	1,112,869	11,392,869
Total	<u>\$ 18,530,000</u>	<u>\$ 4,292,347</u>	<u>\$ 22,822,347</u>

**NSCS Bond Summary**

Year Ending June 30	Principal	Interest	Total
2012	\$ 2,505,000	\$ 1,781,442	\$ 4,286,442
2013	2,635,000	1,681,226	4,316,226
2014	2,725,000	1,576,705	4,301,705
2015	2,845,000	1,457,726	4,302,726
2016	2,965,000	1,337,905	4,302,905
2017-2021	16,410,000	4,705,928	21,115,928
2022-2026	7,010,000	2,171,942	9,181,942
2027-2031	5,370,000	539,131	5,909,131
2032	260,000	6,565	266,565
Total	<u>\$ 42,725,000</u>	<u>\$ 15,258,570</u>	<u>\$ 57,983,570</u>

The bond resolutions of the Nebraska State Colleges Facilities Corporation Bonds, the Refunding Bonds, and the Revenue Bonds specify the funds that need to be established, the required transfers between funds, and the maximum maturity limits for the funds' investments. The bond resolutions also contain certain covenants, including compliance with a ratio of net revenues to debt service. At June 30, 2011, the NSCS was in compliance with these requirements.

**5. Capital and Operating Leases**

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**5. Capital and Operating Leases** (Concluded)

Future minimum capital lease payments for PSC and CSC as of June 30, 2011, were:

2012	\$ 178,758
2013	106,762
Total Minimum Payments	<u>285,520</u>
Less: Interest and executor costs	9,974
Present value of net minimum payments	<u><u>\$ 275,546</u></u>

Noncancellable operating leases related primarily to learning facility expenses expire in various fiscal years through 2014. These leases generally contain renewal options for periods ranging from one to two years and require the NSCS to pay all executory costs (property taxes, maintenance, operating, and insurance).

Future operating lease payments at PSC as of June 30, 2011, were:

2012	\$ 99,077
2013	80,120
2014	4,773
	<u>\$ 183,970</u>

**6. Pension Plan**

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board of Trustees and may be amended by the Board in accordance with Neb. Rev. Stat. § 85-320 (Reissue 2008). The plan covers all faculty, professional staff, and support staff, and provides investment options and annuity contracts administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and may be amended by action of the Board of Trustees. Contribution rates for plan members and the NSCS for 2011, 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, 2011, by plan members and the NSCS aggregated were \$2,480,169 and \$3,306,546, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**6. Pension Plan** (Concluded)

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

The NSCS also sponsors a supplemental retirement annuity (SRA) plan and 457 deferred compensation supplemental plan. Plan members contributed \$824,012 to the SRA and \$46,613 to the 457 plan in 2011. The NSCS does not contribute to these supplemental plans.

**7. Risk Management**

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

The NSCS has chosen to purchase insurance for:

- A. Health care and life insurance for eligible employees.
- B. General liability coverage, with limits ranging from \$1,000,000 per occurrence to \$5,000,000 in aggregate.
- C. Employee benefits liability, with a limit of \$1,000,000 per each employee and \$1,000,000 annual aggregate.
- D. Director and officer liability, with a limit of \$2,000,000 and a self-insured retention of \$100,000.
- E. Real and personal property through the Midwest Higher Education Compact's (MHEC) property program on a blanket basis for losses up to \$500,000,000, with the program funding a self insurance pool of \$1,000,000 per loss occurrence and a deductible of \$25,000 for the NSCS. Newly acquired properties are covered up to \$100,000,000 for 90 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**7. Risk Management** (Concluded)

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

**8. Commitments and Contingencies**

*Construction Contracts*

The Board of Trustees has authorized and approved construction commitments of \$11,636,444 as of June 30, 2011. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

WSC	\$	7,361,509
CSC	\$	939,345
PSC	\$	3,335,590

*Government Grants*

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

**9. Restricted Net Assets**

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

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**9. Restricted Net Assets** (Concluded)

*Other* includes \$933,103 in funds set aside by the Board of Trustees for various endowments and student scholarships and \$1,304,979 in unexpended information system project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

**10. Financial Statement Reporting of Discounts and Allowances**

GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*, states that “revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements.” Industry guidance for public colleges and universities reiterates these disclosure options in NACUBO Special Action Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*.

In July 2010 the NSCS implemented a new Student Information System which changed availability of certain financial reporting data. As a result, the NSCS 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) for the fiscal year ended June 30, 2011. Scholarship allowances represent financial aid awarded to students by the NSCS that is used to pay NSCS charges such as tuition, fees, residence hall charges and board. A scholarship allowance directly reduces the appropriate revenues and to the extent that financial aid exceeds the NSCS’s charges to students, the NSCS recognizes financial aid expense. The scholarship allowances and student institutional waivers, for the year ended June 30, 2010, as calculated by NSCS under their previous acceptable method, were \$11,888,688 and \$3,783,482 respectively in tuition and fees and auxiliary enterprises revenues. For the year ended June 30, 2011, as calculated by NSCS under their newly adopted NACUBO method, these allowances and waivers were \$10,609,545 and \$3,403,306 respectively.

**11. Prior Period Adjustment – Asset Capitalization**

The NSCS has restated its Net Assets at July 1, 2010, as a result of a change the Nebraska State College Board of Trustees approved to its asset capitalization policy effective July 1, 2010. NSCS’s capitalization policy no longer requires the capitalization of library and artwork collections. The effect of this adjustment on beginning Net Assets on July 1, 2010, was a decrease of \$1,470,231.



NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**11. Prior Period Adjustment – Asset Capitalization** (Concluded)

The NSCS has restated Net Assets at July 1, 2010, to reflect capitalization of assets which had previously been expensed. The effect of this adjustment on beginning Net Assets on July 1, 2010, was an increase of \$1,498,592. This amount was expensed in fiscal year 2010, but it should have been capitalized as part of the State College's new Student Information System.

The net effect of these two prior period adjustments is an increase of \$28,361 in the beginning Net Assets on July 1, 2010.

**12. Joint Venture**

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

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

**13. Component Unit Disclosures – Foundations**

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

Chadron State Foundation – Pages 48 – 62

Peru State Foundation – Pages 63 – 73

Wayne State Foundation – Pages 74 – 86

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities - Chadron State Foundation (the Foundation) is a nonprofit organization incorporated in the State of Nebraska in 1963 to promote the education, scientific, and benevolent purposes of Chadron State College (the College). The Foundation acts largely as a fund-raising organization, soliciting and receiving contributions and pledges on behalf of the College. Assets received by the Foundation are used to acquire equipment to be used by the College, to provide financial aid for college students, or to be otherwise expended for the betterment of the College.

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

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 have designated \$490,000 of this fund balance to Capital Campaign Initiatives.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Foundation considers all cash in banks to be cash and cash equivalents. Restricted cash and cash equivalents are limited to use as the Foundation acts as a custodian for clubs and organizations of Chadron State College as further discussed in Note 7.

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

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Contributed Materials and Services - The Foundation records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. Total contributed materials and services recognized for the year ending June 30, 2011 was \$94,154.

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

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment (Continued)

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

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

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

The Foundation has a collection of artwork and other memorabilia that were donated by several supporters of Chadron State College. The collection is on display and is available to those who are interested in studying Nebraska state history. The Foundation has taken steps to ensure that the collection is protected and preserved. It is the policy of the Foundation that proceeds from the sale of any collection items are to be used to purchase additional collection items. Contributions to the collection are not reflected in the accompanying financial statements since the Foundation does not capitalize collections.

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

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**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 maximum at June 30, 2011. The total bank balance represents the amount held by the bank. The carrying balance represents the reconciled general ledger balance at June 30, 2011.

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

Category 2 - Uninsured by FDIC.

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

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Balance</u>	<u>FDIC Coverage Category 1</u>	<u>No FDIC Coverage Category 2</u>	<u>Collateralized Category 3</u>
Demand Deposits:					
Bank of the West					
Operating Account	\$ 369,326	\$ 389,876	\$ 250,000	\$119,326	\$ -
North Platte Bank					
Operating Account	823,469	802,039	481,617	-	341,852
Credit Card Account	18,383	18,383	18,383	-	-
First National Bank – Chadron					
Custodial Account	436,949	267,896	250,000	186,949	-
Edward Jones					
Money Market	22,509	22,509	-	22,509	-
Certificates of Deposit					
Bank of the West	35,000	35,000	35,000	-	-
First State Bank	125,000	125,000	125,000	-	-
Chadron Fed Cr Union	100,399	100,212	100,399	-	-
Western Heritage	151,034	150,641	151,034	-	-
Security First Bank	100,558	100,558	100,558	-	-
FNB - Gordon	100,190	100,190	100,190	-	-
Platte Valley Bank	200,325	200,325	200,325	-	-
	<u>\$2,483,142</u>	<u>\$2,312,629</u>	<u>\$ 1,812,506</u>	<u>\$328,784</u>	<u>\$ 341,852</u>

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 3 - CONTRIBUTIONS**

Contributions receivable at June 30, 2011 were as follows:

	2011
Receivable in Less Than One Year	\$ 474,177
Receivable in One to Five Years	949,353
Receivable in Six to Ten Years	9,420
Total Contributions Receivable	\$ 1,432,950
Less Unamortized Discounts to Net Present Value	(59,765)
Less Allowance for Uncollectable Accounts	(48,009)
Net Contributions Receivable	\$ 1,325,176

The discount rates used on long-term promises to give were 3% for the year ended June 30, 2011.

**NOTE 4 - INVESTMENTS**

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

	Cost 06/30/2011	Market Value 06/30/2011	Unrealized Appreciation
LLC Groups:			
MGA Diversified Core Equity LLC	\$ 1,533,698	\$ 2,188,289	\$ 654,591
MGA Focused Core Equity LLC	1,151,337	1,163,912	12,575
MGA Diversified Sm/Mid Cap Equity LLC	627,558	856,322	228,764
MGA Focused Small Cap Equity LLC	525,006	505,733	(19,273)
MGA International Equity LLC	891,288	1,036,585	145,297
MGA Cash Reserves LLC	518,891	519,179	288
MGA Core Income LLC	1,558,287	1,587,183	28,896
MGA Total Return LLC	1,979,796	2,144,321	164,525
MGA Tactical Opportunity LLC	479,552	518,727	39,175
Total Investments	\$ 9,256,413	\$10,520,251	\$ 1,254,838

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 4 – INVESTMENTS (CONTINUED)**

Effective July 1, 2008 the Foundation adopted FASB ASC 820-10, *Fair Value Measurements* which has been applied prospectively as of the beginning of the 2009 fiscal year. FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

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

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

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

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

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

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



NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 4 – INVESTMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2011:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
LLC Groups:				
MGA Diversified Core Equity LLC	\$ 2,188,289	\$ -	\$ 2,188,289	\$ -
MGA Focused Core Equity LLC	1,163,912	-	1,163,912	-
MGA Diversified Sm/Mid Cap Equity LLC	856,322	-	856,322	-
MGA Focused Small Cap Equity	505,733	-	505,733	-
MGA International Equity LLC	1,036,585	-	1,036,585	-
MGA Cash Reserves LLC	519,179	-	519,179	-
MGA Core Income LLC	1,587,183	-	1,587,183	-
MGA Total Return LLC	2,144,321	-	2,144,321	-
MGA Tactical Opportunity LLC	518,727	-	518,727	-
Total Investments	<u>\$10,520,251</u>	<u>\$ -</u>	<u>\$10,520,251</u>	<u>\$ -</u>

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

	2011
Interest and dividend income	\$ 254,637
Net realized gains (losses)	753,483
Net unrealized gains (losses)	910,917
Management fees	(79,134)
Total	<u>\$1,839,903</u>

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 5 - OTHER ASSETS**

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The carrying amounts (which are at fair value) of beneficial interests in trusts 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 Chicoine Trust is payable upon death of the donor and there are no rights within the trust to redirect these funds. The Lindeken Estate Bequest and the Truwe Estate Bequest were finalized in the current fiscal year. The Foundation was notified of two additional estate bequests (Hale and Funkhouser) in 2011 that are expected to be distributed in the next fiscal year. These bequests were recorded at their estimated fair value as of June 30, 2011. The fair value of the beneficial interests at June 30, 2011 were as follows:

	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Chicoine Trust	\$2,239,778	\$ -	\$2,239,778	\$ -
Beneficial Interest in Margaret Truwe Bequest	709,480	-	-	709,480
Beneficial Interest in Lindeken Estate Bequest	411,343	-	-	411,343
Cash Surrender Value of Life Insurance	35,467	-	-	35,467
Beneficial Interest in Annuity	53,473	-	-	53,473
Total Other Assets	<u>\$3,449,541</u>	<u>\$ -</u>	<u>\$2,239,778</u>	<u>\$ 1,209,763</u>

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**NOTE 6 - PROPERTY AND EQUIPMENT**

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

Land	\$ 38,500
Office Equipment	<u>96,947</u>
	\$ 135,447
Less Accumulated Depreciation	<u>(60,472)</u>
Property & Equipment, Net of Accumulated Depreciation	<u>\$ 74,975</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, 2011, the restricted cash balance was \$267,896. The amount held in endowed investments as of June 30, 2011 was \$454,189 and the total due to other agencies balance was \$413,423.

**NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS**

The Foundation has 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, 2011, the Board of Directors had designated \$260,101 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.

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)**

Gifts assigned to a quasi endowment shall be divided into two separate fund balances. One shall be called the “Initial Fund Balance” and one shall be called the “Quasi Endowment Fund Balance”. The balance for either the Initial Fund Balance or Quasi Endowment Fund Balance shall be determined as of June 30<sup>th</sup> 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.

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

Investments - Donor Designated Endowment - The Foundation’s endowment consisted of approximately 321 individual funds established for a variety of purposes. Its endowment includes both donor-restricted and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the

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 Endowment (Continued)

donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated from the expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose 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 the 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 Quasi Endowment shall be according to its controlling restrictions. In

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 Endowment (Continued)

establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

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

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

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

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

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**

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

	<u>2011</u>
Scholarships and College Use	\$ 2,123,287
Chicoine Trust - Time Restrictions	<u>2,239,778</u>
Total Restrictions Released	<u>\$ 4,363,065</u>

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

	<u>2011</u>
Purpose Restriction Accomplished:	
Scholarships	\$ 204,805
College Use	300,000
Management Fees	290,378
Investment Fees	<u>73,949</u>
Total Restrictions Released	<u>\$ 869,132</u>

**NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS**

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**CHADRON STATE FOUNDATION (Continued)**

**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, 2011 were \$17,847.

**NOTE 12 - SUBSEQUENT EVENTS**

On August 27, 2011, the Chadron State Foundation board approved named endowment and grant to campus payouts for the 2012-13 academic year. This will result in a liability at December 31, 2011 of \$191,937 for the named endowments and \$108,000 for the grant to campus.

The Foundation has evaluated subsequent events through September 30, 2011, the date which the financial statements were issued.



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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements of Not-for-Profit Entities*, formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. 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 Trustees has discretionary control and are used to carry out the operations of the Foundation in accordance with its bylaws.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Use of Estimates

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

Public Support and Revenue

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

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

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

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

Functional Allocation of Expenses

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The carrying amounts for 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 highly liquid investments with maturities of three months or less to be cash and cash equivalents. The Foundation maintains several bank accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at December 31, 2010 and 2009. Cash at December 31, 2010 and 2009 did not exceed federally insured limits. The Foundation requires the banks with which it does business to provide collateral for amounts exceeding federal insurance coverage. Two banks have pledged securities for an additional \$100,000 of collateral.

Unconditional Promises to Give

Unconditional promises to give are recorded as receivables and revenues when received. Unconditional promises to give that are due in the next year are reflected as current promises to give and are recorded at their estimated net realizable value. The 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 an allowance for doubtful accounts. The Foundation determines the allowance for doubtful accounts by regularly evaluating individual student loan receivables and considering the student's financial condition, credit history, and current economic conditions. Student loans receivable are written off when deemed uncollectible.

Property and Equipment

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

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

NEBRASKA STATE COLLEGE SYSTEM  
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**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**PERU STATE FOUNDATION** (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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

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

Endowments and Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values using quoted market prices within an active market (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the statement of activities as a change in unrestricted net assets.

The Foundation pools their investments for greater flexibility in managing its investments. When investments are pooled, they lose their specific identification with specific contributions. Thus, the income and unrealized and realized gains and losses are allocated to the pool participants using the market value method. The market value method assigns a number of units to each pool participant based on the relationship of the individual 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 endowment is reimbursed from unrestricted net assets as necessary to replenish the endowment fund to its historic dollar value as established by the Foundation.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Investments (Continued)

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 seeking to maintain 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 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. The Foundation estimates the amount of compensation for future compensated absences and, accordingly, recognizes the liability 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 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). There was no unrelated business income for 2010 and 2009.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

2. CONCENTRATION OF CREDIT RISK

Financial instruments that are exposed to concentrations of credit risk consist of cash, unconditional promises to give, student loans receivable, and investments. The Foundation's cash and investments are in high quality institutions and companies with high credit ratings. The Foundation performs ongoing evaluations of outstanding credit balances and collectability. Cash and investments are based on quoted market prices. Unconditional promises to give and student loans are carried at estimated net realizable values.

3. INVESTMENTS

The Foundation's investments at December 31, 2010 consist of the following:

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

Investment expense which consists of management fees totaled \$24,774 in December 31, 2010.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION** (Continued)

3. INVESTMENTS (Continued)

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

	2010
Fair Value of Endowed Assets	\$ 7,176,264
Historical Dollar Value of Endowed Assets	(5,411,800)
Net Appreciation - Endowed Assets	\$ 1,764,464

4. NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2010
The Foundation entered into a purchase lease with the College, whereby the College leased the Al Wheeler Activity Center Renovation for 12 years, payable at \$25,871 per year including interest at 3.5%. The College has the option to purchase the Remodel at the end of the lease term for \$10.	196,818
Less Current Portion of Notes Receivable	18,982
	\$ 177,836

The aggregate maturities of notes receivable are as follows:

Years Ending December 31,		
2011	\$	18,982
2012		19,647
2013		20,334
2014		21,046
2015		21,783
Thereafter		95,026
	\$	196,818

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION** (Continued)

5. REFUNDABLE DEPOSITS

Beginning in 2003, the Bobcat Athletic Association, Peru Booster Club, Peru Student Organization, and Farmer to Farmer Fund have entered into intermediary agreements with the Foundation. Funds are being held in cash by the Foundation as an agent of these organizations to be disbursed at their request. The funds are not owned by the Foundation. The funds provided by these organizations are not pooled with the Foundation's investments. The liability included in the accompanying statements of financial position represents the amount due to these entities totaling \$82,633 as of December 31, 2010.

6. 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 amounts or quarterly amounts to the donor until the death of the donor. The gift annuity liability of \$115,438 as of December 31, 2010 represents the present value of the future cash flows expected to be paid to the donors. The annuities payable are discounted at 2.77% (7-year Treasury Bill rate at December 31, 2010) and are due in monthly or quarterly installments.

The aggregate maturities of gift annuities for the years ending after December 31, 2010 are as follows:

Years Ending December 31,	
2011	33,530
2012	34,471
2013	35,438
2014	11,999
	<hr/>
	\$ 115,438



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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

7. NOTE PAYABLE

The note payable is due to a financial institution, bears interest at a fixed rate of 6.00% and is payable in monthly installments of \$324 including interest and is due July 1, 2014.

Maturities on this note are as follows:

Years Ending December 31,	
2011	3,230
2012	3,429
2013	3,640
2014	2,198
	\$ 12,497

8. DEFERRED COMPENSATION

On January 20, 2006, the Foundation entered into an agreement with the President of the College in recognition of the past service, judgment, and demonstrated skills on behalf of both the College and the Foundation; and as an incentive to the President to continue service in the future on behalf of both Organizations. The agreement was amended and restated in its entirety on May 23, 2008, when the Foundation agreed to retroactively contribute, by way of credit to a book account, the sum of \$60,000 annually, for specific years beginning with the College's year end of June 30, 2004 through June 30, 2008.

In 2009, the Foundation determined it had good cause to terminate the agreement with the former President of the College. Termination of the agreement resulted in the forfeiture by the former president of the unvested balance in the account totaling \$269,896. This resulted in an extraordinary gain in the 2009 statement of activities.

9. NET ASSETS

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

Designated for scholarship	\$ 605,045
Designated for work stipends	611,259
Designated for campus improvements	5,500
	\$ 1,221,804

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION** (Continued)

9. NET ASSETS (Continued)

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

	2010
Restricted for scholarships	\$ 1,108,093
Restricted for education department and athletic funds	774,973
	\$ 1,883,066

Permanently restricted net assets consist of endowment fund assets held indefinitely. The income from the assets is used for scholarships and to support the Foundation. Amounts appropriated for scholarships in 2010 amounted to \$117,202.

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

	2010
Purpose restriction accomplished:	
Scholarships	\$ 270,936
Departmental and athletic gifts to College	50,594
Management fees	13,695
	\$ 335,225

10. RELATED PARTY TRANSACTIONS

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

	2010
Salary and Wage Reimbursement	\$ 319,411
Gifts	82,308
Departmental Expense	17,180
Total	\$ 418,899

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**PERU STATE FOUNDATION (Continued)**

11. PENSION PLAN

The College sponsors a defined contribution retirement pension plan, Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), in which the Foundation's employees are allowed to participate. This plan covers all employees upon attaining 30 years of age and having two years of college service may participate voluntarily. Employee contributions are limited to 6% of gross salary. The College can contribute 8% of the employee's salary as a matching fund. The Foundation reimburses the College for the retirement fund contributions along with the salary reimbursements. The Foundation's contributions to the plan totaled \$18,942 for the year ended December 31, 2010.

12. CONCENTRATIONS

During 2010, the Foundation received approximately 72% of its contributions from 4 individuals and estates.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 21, 2011, 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**

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**NOTE A - FOUNDATION**

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

See Note S regarding joint venture with Northeast Community College.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Basis of Presentation**

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

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

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

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

**Prior-Year Summarized Comparative Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010 and 2009, from which the summarized information was derived.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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

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**Contributions**

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

**Pervasiveness of Estimates**

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

**Cash and Cash Equivalents**

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

**Inventory**

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

**Investments**

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

**Income Taxes**

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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

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**Income Taxes (cont'd)**

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 the U.S. federal, state, and local income tax examinations by tax authorities for years before 2007. 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.

**Real Estate**

Donations of real 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.

**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, 2011, was \$48,184.

**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, 2011) for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through September 9, 2011, which is the date the financial statements were available to be issued.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

**NOTE C – CREDIT RISK ARISING FROM CASH DEPOSITS**

At times the Foundation may have uninsured bank deposits. At June 30, 2011, the Foundation had bank deposits of \$1,064,665 of which \$57,667 was uninsured.

**NOTE D - PROMISES TO GIVE**

**Unconditional Promises**

Unconditional promises are recorded at their net realizable value.

Unconditional promises to give at June 30, 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Unconditional				
Promises to give	\$ -	\$ 859,874	\$ 33,668	\$ 893,542
Less discount to				
Present value	-	(65,389)	(2,945)	(68,334)
Less allowance for				
uncollectible prom.	-	(18,055)	-	(18,055)
Net unconditional				
Promises to give	<u>\$ -</u>	<u>\$ 776,430</u>	<u>\$ 30,723</u>	<u>\$ 807,153</u>

Unconditional promises consist of the following:

	<u>Estimated cash flows</u>	<u>Discount</u>	<u>Discounted value</u>
Due 6/30/2011	\$ 109,403	\$ -	\$ 109,403
6/30/2012	343,065	(13,660)	329,405
6/30/2013	256,281	(19,402)	236,879
6/30/2014	76,038	(8,536)	67,502
6/30/2015	18,700	(2,835)	15,865
6/30/2016	11,000	(2,100)	8,900
More than 5 years			
6/30/2017-2028	61,000	(21,801)	39,199
	<u>\$ 875,487</u>	<u>\$ (68,344)</u>	<u>\$ 807,153</u>

The allowance for uncollectible promises represents the unpaid portion of the Phonathon pledges. All other pledges are considered collectible. At June 30, 2011 \$109,402 of other pledges were past due including \$75,593 that were over 90 days past due. Other pledges written off for the fiscal year ended June 30, 2011, 2010, and 2009 were \$30,000, \$52,600, and \$0, respectively.

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, 2011 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money markets	\$ 94,561	\$ 875,772	\$ (12,609)	\$ 957,724
Certificates of Deposits	45,995	366,805	107,024	519,824
Commonfund- Equity Fund	1,026,894	915,062	7,017,627	8,959,583
Commonfund- Bond Fund	550,428	195,615	2,830,029	3,576,072
Subtotal Commonfund	<u>1,577,322</u>	<u>1,110,677</u>	<u>9,847,656</u>	<u>12,535,655</u>
Other Securities	6,336	89,038	28,169	123,543
Totals	<u>1,724,214</u>	<u>2,442,292</u>	<u>9,970,240</u>	<u>14,136,746</u>
Investments Restricted for annuity contracts:				
Commonfund- Equity Fund	230,107	-	542,712	772,819
Commonfund- Bond Fund	77,175	-	214,139	291,314
Totals	<u>307,282</u>	<u>-</u>	<u>756,851</u>	<u>1,064,133</u>
Investments held in perpetual trust:				
Money Markets	-	-	10,416	10,416
Bonds and notes	-	-	254,824	254,824
Equities	-	-	551,647	551,647
Totals	<u>-</u>	<u>-</u>	<u>816,887</u>	<u>816,887</u>
Total all investments	<u>\$ 2,031,496</u>	<u>\$ 2,442,292</u>	<u>\$11,543,978</u>	<u>\$ 16,017,766</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, 2011 the Foundation had investments (including reserved for annuities) with Commonfund of \$13,599,788, which represents approximately 85% 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, 2011 in valuing the Foundation's investments:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short Term Cash Investments and Certificate of Deposits	\$ 18,901	\$ 1,477,548	\$ -	\$ 1,496,448
U.S. Equity	517,801	8,077,893	-	8,595,694
International Equity	124,788	1,070,564	-	1,195,353
Emerging Markets Equity	21,377	583,944	-	605,321
Fixed Income	257,564	3,867,386	-	4,124,950
Total	<u>\$ 940,431</u>	<u>\$ 15,077,335</u>	<u>\$ -</u>	<u>\$ 16,017,766</u>

The Foundation did not hold other financial instruments as of June 30, 2011.

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.

**Investments Management Fees**

Investment management fees have been deducted from investment income.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment Management Fees	\$ 5,768	\$ 35,280	\$ 8,163	\$ 49,211

**NOTE F - REAL ESTATE**

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

	<b>Bressler</b>		
	<u>Alumni House</u>	<u>1308 Main</u>	<u>Total</u>
Land	\$ 20,000	\$ 39,500	\$ 59,500
Building	120,000	81,000	201,000
Subtotal	140,000	120,500	260,500
Accumulated Depreciation	(44,000)	(10,200)	(54,200)
Net 6-30-11	\$ 96,000	\$ 110,300	\$ 206,300
Depreciation Exp. FYE 6-30-11	\$ 3,000	\$ 2,700	\$ 5,700

**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:

	<u>Policy Amount</u>	<u>6/30/11 Cash Value</u>
Unrestricted	\$ 374,502	\$ 59,861
Temporarily Restricted	37,500	3,268
Permanently Restricted	23,986	9,481
Totals	<u>\$ 435,988</u>	<u>\$ 72,610</u>

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

**NOTE H - ANNUITY CONTRACTS**

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

Annuity assets as of June 30, 2011, are summarized as follows:

	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Investments restricted for annuity contracts	\$ 307,282	\$ 756,850	\$ 1,064,132
Annuities Payable	\$ 144,259	\$ 402,472	\$ 546,731

**NOTE I - UNRESTRICTED NET ASSETS**

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

Board Designated:	
Quasi-Endowment	\$ 224,559
Total board designated	\$ 224,559

**NOTE J - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2011:

Program Activities:	
Scholarships and Grants	\$ 1,210,842
Improvements	1,209,575
College Departments	369,695
SSC College Center (see Note S)	628,957
Time Only Restriction (Unrestricted receivables)	87,110
Other Designated Programs	4,206
Total Temporarily Restricted Net Assets	\$ 3,510,385

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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**NOTE K - PERMANENTLY RESTRICTED NET ASSETS**

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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**

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The Foundation's endowment consists of approximately 280 individual funds established for a variety of purposes. Its endowment includes both donor restricted funds and funds designated by the Executive Committee to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds including funds designated by the Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION** (Continued)

**NOTE L - ENDOWMENT FUNDS (cont'd)**

*Endowment Net Asset Composition by Type of Fund as June 30, 2011*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (26,955)	\$ 946,801	\$10,138,215	\$ 11,058,061
Board-designated endowment funds	224,559	-	-	224,559
Total Funds	<u>\$ 197,604</u>	<u>\$ 946,801</u>	<u>\$10,138,215</u>	<u>\$ 11,282,620</u>

*Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beg. of year	\$ (511,076)	\$ 137,926	\$ 9,849,776	\$ 9,476,626
Contributions	-	-	288,439	288,439
Net investment income	4,233	185,039	-	189,272
Net appreciation (depreciation)	704,446	1,040,839	-	1,745,285
Amounts appropriated for expenditure	-	(417,003)	-	(417,003)
Endowment net assets, end of year	<u>\$ 197,603</u>	<u>\$ 946,801</u>	10,138,215	<u>\$ 11,282,619</u>

Other permanently restricted net assets:

Interest in Robert Cunningham Perpetual Trust	816,887
Cash Value of Life Insurance to Fund	
Permanently Restricted Endowment Funds	9,481
Charitable Gift Annuity Net Assets to Fund Permanently	
Restricted Endowments at a Future Date	329,403
Promises to Fund Permanently Restricted Endowment	
Funds	<u>30,723</u>
Total Permanently Restricted Net Assets	\$ 11,324,709

*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 \$26,955 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Executive Committee of the Foundation.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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**NOTE L - ENDOWMENT FUNDS (cont'd)**

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*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 30<sup>th</sup> 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.

**NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES**

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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**

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The Foundation receives donated accounting services, secretarial services and rent from Wayne State College. The estimated fair value for these services are \$148,218 for the year ended June 30, 2011. The amount has been recognized in the financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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**NOTE O - PENSION PLAN**

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The Foundation contributes to a defined contribution retirement plan and is required to contribute 8% of the employee's salary. The Foundation's contributions to the retirement plan were \$18,079 for the year ended June 30, 2011.

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

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

**NOTE Q - RELATED PARTIES**

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For the year ended June 30, 2011 the Foundation made payments to Wayne State College of \$2,235,152 and had an outstanding balance due of \$37,282, which consisted of \$1,459,095 for scholarships, stipends, and tuition assistance; \$372,682 for capital improvements for the Baseball/Softball Facilities, Athletic Facility Renovation, Carhart Science Building Renovation, Campus Beautification, Willow Bowl Renovation, and Commons, \$123,450 for Athletics programs budget transfers and programs; \$287,516 for staff salaries; and \$29,691 for other expenses.

**NOTE R - COMMITMENTS**

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In January 2010, the Foundation entered into a collaborative agreement with the Board of Trustees of the Nebraska State College System in engage in cooperative practices and exchange benefits for the betterment of Wayne State College. Nothing in this Agreement shall be interpreted to supersede the articles and by-laws of the Wayne State Foundation. The Foundation has agreed to establish an annual expense account of no less than \$1,500 for the Chancellor to be used for activities in support of the College. The President of Wayne State College will be provided with an automobile and an annual expense account of no less than \$10,000, to help cover the President's spouse's activities supporting the College. If all of the state college foundations agree to participate in the NSCS Teaching Excellence Award an annual contribution must be made by each foundation in the amount of \$1,000

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**WAYNE STATE FOUNDATION (Continued)**

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**NOTE S - SSC COLLEGE CENTER**

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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. Classes are underway with a 2011 Spring semester enrollment of 575 students.

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

Contribution revenue for the fiscal year for the College Center included \$10,925 of outright gifts and \$6,000 of pledges. The pledges were discounted \$485 for net contribution revenue of \$16,440. Pledges receivable at June 30, 2011 included in the temporarily restricted balance, amounted to \$498,446 with a net present value of \$471,994.



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

June 30, 2011

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>TOTAL</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash Equivalents	\$ 7,352,836	\$ 4,863,779	\$ 14,913,185	\$ 6,738	\$ 27,136,538
Restricted Cash and Cash Equivalents	1,005,838	830,825	859,494	8,436,386	11,132,543
Accounts Receivable, Net of Allowance	448,207	541,624	221,946	-	1,211,777
State Grants and Appropriations Receivable	-	145,325	106,081	102,203	353,609
Other Receivables	173,834	62,017	-	28,630	264,481
Inventories	8,135	63,820	61,339	-	133,294
Loans to Students, Net	159,167	-	207,847	-	367,014
Prepaid Expenses	251,522	137,144	115,927	14,026	518,619
Deposits with Vendors	-	-	1,510	17,242	18,752
Total Current Assets	<u>9,399,539</u>	<u>6,644,534</u>	<u>16,487,329</u>	<u>8,605,225</u>	<u>41,136,627</u>
<b>Non-current Assets</b>					
Restricted Cash and Cash Equivalents	3,041,345	6,129,168	14,221,682	-	23,392,195
Restricted Investments Held by Trustee	-	-	-	330,188	330,188
Investment Income Receivable	-	2,636	-	-	2,636
Loans to Students, Net	995,480	-	1,023,462	-	2,018,942
Capital Assets, Net	33,071,237	38,073,682	68,069,822	7,655,423	146,870,164
Deferred Bond Issue Costs, Net	99,363	22,389	104,315	329,325	555,392
Total Non-current Assets	<u>37,207,425</u>	<u>44,227,875</u>	<u>83,419,281</u>	<u>8,314,936</u>	<u>173,169,517</u>
Total Assets	<u>46,606,964</u>	<u>50,872,409</u>	<u>99,906,610</u>	<u>16,920,161</u>	<u>214,306,144</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Liabilities	1,817,105	1,360,493	3,463,810	1,292,059	7,933,467
Accrued Compensated Absences	113,458	62,003	157,239	13,603	346,303
Other Liabilities	152,481	20,540	-	-	173,021
Deferred Revenue	184,624	31,687	2,990	-	219,301
Interest Payable	122,050	122,827	269,124	370,737	884,738
Long-Term Debt - Current Portion	235,000	139,647	635,000	1,515,000	2,524,647
Deposits Held in Custody for Others	21,005	104,387	89,535	-	214,927
Total Current Liabilities	<u>2,645,723</u>	<u>1,841,584</u>	<u>4,617,698</u>	<u>3,191,399</u>	<u>12,296,404</u>
<b>Non-current Liabilities</b>					
Accrued Compensated Absences	997,307	620,791	1,333,584	180,732	3,132,414
Unamortized Bond Premium	-	-	-	191,885	191,885
Other Non-current Liabilities	102,525	-	-	-	102,525
Long-Term Debt	4,895,000	6,518,189	11,950,000	17,015,000	40,378,189
Total Non-current Liabilities	<u>5,994,832</u>	<u>7,138,980</u>	<u>13,283,584</u>	<u>17,387,617</u>	<u>43,805,013</u>
Total Liabilities	<u>8,640,555</u>	<u>8,980,564</u>	<u>17,901,282</u>	<u>20,579,016</u>	<u>56,101,417</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt Restricted for Expendable	28,040,600	27,846,250	55,589,137	7,655,423	119,131,410
Loans	1,223,625	-	1,413,629	-	2,637,254
Debt Service	2,206,636	9,188,927	13,304,055	2,293,581	26,993,199
Plant	-	-	-	3,280,697	3,280,697
Other	215,001	607,521	282,583	2,238,082	3,343,187
Unrestricted	<u>6,280,547</u>	<u>4,249,147</u>	<u>11,415,924</u>	<u>(19,126,638)</u>	<u>2,818,980</u>
Total Net Assets	<u>\$ 37,966,409</u>	<u>\$ 41,891,845</u>	<u>\$ 82,005,328</u>	<u>\$ (3,658,855)</u>	<u>\$ 158,204,727</u>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
Fiscal Year Ended June 30, 2011

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
<b>Operating Revenues</b>					
Tuition and Fees, Net of Scholarship Allowances and Institutional Waivers	\$ 6,886,460	\$ 5,568,884	\$ 10,954,742	\$ -	\$ 23,410,086
Federal Grants and Contracts	5,065,734	3,498,294	6,404,786	-	14,968,814
State Grants and Contracts	251,014	651,704	587,571	-	1,490,289
Private Grants and Contracts	950,206	450,937	454,223	-	1,855,366
Auxiliary Enterprises, Net of Scholarship Allowances and Institutional Waivers	5,238,508	2,505,780	7,247,512	-	14,991,800
Other Operating Revenues	11,109	259,722	441,962	-	712,793
<b>Total Operating Revenues</b>	<u>18,403,031</u>	<u>12,935,321</u>	<u>26,090,796</u>	<u>-</u>	<u>57,429,148</u>
<b>Operating Expenses</b>					
Compensation and Benefits	18,887,842	12,312,182	27,117,615	1,013,173	59,330,812
Contractual Services	909,395	697,837	1,266,354	225,561	3,099,147
Supplies and Materials	3,448,431	2,753,846	3,898,124	936	10,101,337
Scholarships and Fellowships	1,794,502	2,258,409	2,289,004	-	6,341,915
Depreciation	1,507,301	1,180,088	1,896,822	775,805	5,360,016
Utilities	1,284,294	809,783	1,818,506	-	3,912,583
Repairs and Maintenance	615,495	573,758	1,205,025	-	2,394,278
Communications	270,996	172,266	311,754	-	755,016
Food Service	1,738,175	1,047,140	2,287,445	-	5,072,760
Other	2,472,421	155,416	232,676	471,808	3,332,321
<b>Total Operating Expenses</b>	<u>32,928,852</u>	<u>21,960,725</u>	<u>42,323,325</u>	<u>2,487,283</u>	<u>99,700,185</u>
<b>Operating Loss</b>	<u>(14,525,821)</u>	<u>(9,025,404)</u>	<u>(16,232,529)</u>	<u>(2,487,283)</u>	<u>(42,271,037)</u>
<b>Non-operating Revenue (Expenses)</b>					
State Appropriations	15,713,898	8,722,542	21,181,319	1,136,292	46,754,051
Investment Income	257,400	217,870	712,608	247,103	1,434,981
Interest on Capital Asset-Related Debt	(110,338)	(189,326)	(356,480)	(790,086)	(1,446,230)
Other Non-operating Revenue (Expense)	(66,200)	(28,384)	2,732	12,514	(79,338)
<b>Net Non-operating Revenues (Expenses)</b>	<u>15,794,760</u>	<u>8,722,702</u>	<u>21,540,179</u>	<u>605,823</u>	<u>46,663,464</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)</b>	1,268,939	(302,702)	5,307,650	(1,881,460)	4,392,427
<b>Capital Facilities Fees</b>	-	-	-	2,056,250	2,056,250
<b>Capital Contributions</b>	-	11,453	684,338	-	695,791
<b>Operating Transfers In (Out)</b>	209,922	45,181	(1,441)	(253,662)	-
<b>Capital Appropriations and Grants</b>	<u>396,857</u>	<u>3,352,764</u>	<u>777,514</u>	<u>1,294,493</u>	<u>5,821,628</u>
<b>Increase in Net Assets</b>	1,875,718	3,106,696	6,768,061	1,215,621	12,966,096
<b>Net Assets, Beginning of Year - As Previously Stated</b>	36,674,690	39,151,847	75,756,801	(6,373,068)	145,210,270
<b>Prior Period Adjustment - Asset Capitalization</b>	(583,999)	(366,698)	(519,534)	1,498,592	28,361
<b>Net Assets, End of Year</b>	<u>\$ 37,966,409</u>	<u>\$ 41,891,845</u>	<u>\$ 82,005,328</u>	<u>\$ (3,658,855)</u>	<u>\$ 158,204,727</u>

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF CASH FLOWS**  
Fiscal Year Ended June 30, 2011

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
<b>Cash Flows From Operating Activities</b>					
Tuition and Fees	\$ 6,624,394	\$ 5,344,752	\$ 10,875,280	\$ -	\$ 22,844,426
Grants and Contracts	6,266,954	4,600,935	7,446,580	-	18,314,469
Payments to Suppliers	(9,148,237)	(5,022,664)	(9,361,856)	(488,901)	(24,021,658)
Payments for Utilities	(1,282,693)	(809,783)	(1,818,506)	-	(3,910,982)
Payments to Employees	(19,256,471)	(12,485,335)	(27,206,566)	(998,963)	(59,947,335)
Loans Issued to Students	(140,785)	-	(115,566)	-	(256,351)
Collections of Loans to Students	172,055	-	213,083	-	385,138
Sales and Services of Auxiliary Enterprises	5,109,760	2,513,948	7,269,946	-	14,893,654
Other Receipts (Payments)	(1,783,393)	(1,998,687)	(2,079,718)	-	(5,861,798)
Net Cash Used in Operating Activities	<u>(13,438,416)</u>	<u>(7,856,834)</u>	<u>(14,777,323)</u>	<u>(1,487,864)</u>	<u>(37,560,437)</u>
<b>Cash Flows From Non-capital Financing Activities</b>					
State Appropriations	16,190,417	9,084,960	21,469,885	1,333,140	48,078,402
Grants and Contracts	-	(46,547)	32,750	-	(13,797)
Direct Lending Receipts	8,922,724	8,204,969	13,391,309	-	30,519,002
Direct Lending Payments	(8,922,724)	(8,204,969)	(13,391,309)	-	(30,519,002)
Other Receipts (Payments)	(204)	(28,384)	2,732	(37,138)	(62,994)
Net Cash Provided by Non-capital Financing Activities	<u>16,190,213</u>	<u>9,010,029</u>	<u>21,505,367</u>	<u>1,296,002</u>	<u>48,001,611</u>
<b>Cash Flows From Capital and Related Financing Activities</b>					
Receipt from State for Capital Purchases	-	-	-	1,294,493	1,294,493
Proceeds from Capital Debt	-	3,600,000	5,000,000	-	8,600,000
Capital Contributions	-	-	684,338	-	684,338
Purchase of Capital Assets	(598,817)	(4,541,004)	(5,301,127)	(415,243)	(10,856,191)
Principal Paid on Capital Debt	(345,000)	(129,647)	(375,000)	(1,455,000)	(2,304,647)
Interest Paid on Capital Debt	(102,008)	(136,058)	(322,995)	(837,983)	(1,399,044)
Capital Facilities Fees	-	-	-	2,027,634	2,027,634
Transfers In (Out)	209,922	45,181	(1,441)	(253,662)	-
Other	(66,982)	11,453	27,070	36,424	7,965
Capital Appropriations	396,857	3,352,764	777,514	-	4,527,135
Net Cash Provided by Capital and Related Financing Activities	<u>(506,028)</u>	<u>2,202,689</u>	<u>488,359</u>	<u>396,663</u>	<u>2,581,683</u>
<b>Cash Flows From Investing Activities</b>					
Purchase/Sale of Investments	-	-	-	(57,053)	(57,053)
Investment Income	257,400	217,870	712,608	247,136	1,435,014
Net Cash Provided by Investing Activities	<u>257,400</u>	<u>217,870</u>	<u>712,608</u>	<u>190,083</u>	<u>1,377,961</u>
<b>Increase in Cash and Cash Equivalents</b>	2,503,169	3,573,754	7,929,011	394,884	14,400,818
<b>Cash and Cash Equivalents, Beginning of Year</b>	8,896,850	8,250,018	22,065,350	8,048,240	47,260,458
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 11,400,019</u>	<u>\$ 11,823,772</u>	<u>\$ 29,994,361</u>	<u>\$ 8,443,124</u>	<u>\$ 61,661,276</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>					
Cash and Cash Equivalents	\$ 7,352,836	\$ 4,863,779	\$ 14,913,185	\$ 6,738	\$ 27,136,538
Restricted Cash and Cash Equivalents - Current	1,005,838	830,825	859,494	8,436,386	11,132,543
Restricted Cash and Cash Equivalents - Non-current	3,041,345	6,129,168	14,221,682	-	23,392,195
Total Cash and Cash Equivalents	<u>\$ 11,400,019</u>	<u>\$ 11,823,772</u>	<u>\$ 29,994,361</u>	<u>\$ 8,443,124</u>	<u>\$ 61,661,276</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF CASH FLOWS**  
Fiscal Year Ended June 30, 2011

	<u>Chadron</u>	<u>Peru</u>	<u>Wayne</u>	<u>Board of Trustees</u>	<u>Total</u>
<b>Reconciliation of Net Operating Revenues (Expenses)</b>					
<b>to Net Cash Used in Operating Activities</b>					
Operating Loss	\$(14,525,821)	\$ (9,025,404)	\$(16,232,529)	\$ (2,487,283)	\$(42,271,037)
Depreciation Expense	1,507,301	1,180,088	1,896,822	775,805	5,360,016
Changes in Operating Assets and Liabilities					
Receivables, Net	(174,384)	(218,381)	61,931	-	(330,834)
Inventories	11,553	(10,003)	(1,708)	-	(158)
Prepays and Other	-	-	-	(3,964)	(3,964)
Accounts Payable and Accrued Liabilities	(113,300)	237,112	(468,926)	212,724	(132,390)
Accrued Compensated Absences	52,962	133	(88,951)	14,854	(21,002)
Other Assets and Liabilities	(196,727)	(20,379)	56,038	-	(161,068)
<b>Net Cash Used in Operating Activities</b>	<b><u>\$(13,438,416)</u></b>	<b><u>\$ (7,856,834)</u></b>	<b><u>\$(14,777,323)</u></b>	<b><u>\$ (1,487,864)</u></b>	<b><u>\$(37,560,437)</u></b>
<b>Supplemental Cash Flows Information</b>					
Accounts Payable Incurred for Capital Asset Purchases	\$ 328,187	\$ 540,283	\$ 867,330	-	\$ 1,735,800

(Concluded)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2011

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	FY 2011 Expenditures
<i>U.S. Department of Education:</i>			
Student Financial Aid Cluster:			
Federal Supplemental Educational Opportunity Grant		84.007	\$ 148,639
Federal Work-Study Program		84.033	462,629
Federal Perkins Loan Program - Federal Capital Contributions		84.038	2,903,812
Federal Pell Grant Program		84.063	11,583,700
Federal Direct Student Loans		84.268	30,519,002
Academic Competitiveness Grants		84.375	286,725
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	200,001
Teacher Education Assistance for College and Higher Education Grants		84.379	42,000
<i>Total Student Financial Aid Cluster</i>			46,146,508
Trio - Student Support Services		84.042	791,276
Trio - Upward Bound		84.047	224,489
<i>Total Trio Cluster</i>			1,015,765
Coordinating Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	(CCPE)	84.069	39,179
Fund for the Improvement of Postsecondary Education		84.116	100,000
Improving Teacher Quality State Grants	CCPE	84.367	17,064
College Access Challenge Grant Program	CCPE	84.378	20,885
<i>Total U.S. Department of Education</i>			\$ 47,339,401
<i>U.S. Department of Agriculture:</i>			
Plant and Animal Disease, Pest Control, and Animal Care	USDA	10.025	\$ 9,380
<i>Total U.S. Department of Agriculture</i>			\$ 9,380
<i>U.S. Department of Housing and Urban Development:</i>			
Office of Community Planning and Development		14.251	\$ 292,200
<i>Total U.S. Department of Housing and Urban Development</i>			\$ 292,200
<i>Department of Transportation:</i>			
State & Community Highway Safety	University of Nebraska-Lincoln (UNL)	20.601	\$ 800
<i>Total Department of Transportation</i>			\$ 800
<i>National Science Foundation:</i>			
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	\$ 95,211
Social, Behavioral, and Economic Sciences	UNL	47.075	44,398
<i>Total National Science Foundation</i>			\$ 139,609

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2011

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>FY 2011 Expenditures</b>
<i>U.S. Small Business Administration:</i>			
Small Business Development Centers	University of Nebraska- Omaha (UNO)	59.037	\$ 90,667
<i>Total U.S. Small Business Administration</i>			<u>\$ 90,667</u>
<i>U.S. Department of Health &amp; Human Services:</i>			
Center for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska Department of Health & Human Services	93.283	\$ 17,677
National Center for Research Resources	University of Nebraska Medical Center (UNMC)	93.389	111,415
<i>Total U.S. Department of Health &amp; Human Services</i>			<u>\$ 129,092</u>
<i>Corporation For National &amp; Community Service:</i>			
Learn & Serve America - Higher Education	UNL & South Dakota State University (SDSU)	94.005	\$ 300
<i>Total Corporation For National &amp; Community Service</i>			<u>\$ 300</u>
<i>National Aeronautics and Space Administration:</i>			
Goddard Space Flight Center Grant	UNO	n/a	\$ 15,617
<i>Total National Aeronautics and Space Administration</i>			<u>\$ 15,617</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 48,017,066</u>

(Concluded)

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2011

**1. Basis of Presentation and Summary of Significant Accounting**

This schedule includes the Federal awards activity of the Nebraska State College System (NSCS) and is presented on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, the schedule presents only a selected portion of the operations of the NSCS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the NSCS.

**2. Subrecipients**

The NSCS did not provide Federal awards to subrecipients.

**3. Major Programs**

Major programs were determined in accordance with OMB Circular A-133. The Student Financial Aid Cluster was considered the major program for the NSCS.

**4. Federal Student Loan Program**

The NSCS administers the Perkins Loan Program for which the Federal government imposes continuing compliance requirements (other than repayment of the loan). In accordance with OMB Circular A-133, expenditures for the Perkins Loan Program includes the balance of loans from previous years of \$2,774,970, plus the value of new loans made during the fiscal year, plus any interest subsidy, cash, or administrative allowance received. The Perkins Loan balance for the NSCS for the fiscal year ended June 30, 2011, was \$2,609,924.

**5. American Recovery and Reinvestment Act (ARRA)**

Reports posted at the Department of Education website show obligations and outlays of ARRA funds for both the Federal Pell Grant Program (CFDA 84.063) and the Federal Work-Study Program (CFDA 84.033). ARRA funds for these two programs are accounted for within the Federal government, but disbursements to recipients are made together with funds from the Federal Pell Grant Program and the Federal Work-Study

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
(Continued)

5. **American Recovery and Reinvestment Act (ARRA)** (Concluded)

Program without a separate identification of the ARRA portions. Consequently, it is not possible for recipients to separately report ARRA expenditures based on accounting records for these programs in their Schedule of Expenditures of Federal Awards. All expenditures for the Federal Pell Grant and Federal Work-Study programs are covered in single audits as part of the Student Financial Aid Cluster.



NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2011

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2011 Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid Cluster:						
Federal Supplemental Educational Opportunity Grant		84.007	\$ 65,992	\$ 38,094	\$ 44,553	\$ 148,639
Federal Work-Study Program		84.033	105,255	112,830	244,544	462,629
Federal Perkins Loan Program - Federal Capital Contributions		84.038	1,481,794	-	1,422,018	2,903,812
Federal Pell Grant Program		84.063	4,987,996	3,034,869	3,560,835	11,583,700
Federal Direct Student Loans		84.268	13,391,309	8,204,969	8,922,724	30,519,002
Academic Competitiveness Grants		84.375	206,396	40,566	39,763	286,725
National Science & Mathematics Access to Retain Talent (SMART) Grants		84.376	84,889	30,507	84,605	200,001
Teacher Education Assistance for College and Higher Education Grants		84.379	42,000	-	-	42,000
<i>Total Student Financial Aid Cluster</i>			20,365,631	11,461,835	14,319,042	46,146,508
Trio - Student Support Services		84.042	297,337	254,176	239,763	791,276
Trio - Upward Bound		84.047	-	-	224,489	224,489
<i>Total Trio Cluster</i>			297,337	254,176	464,252	1,015,765
Coordinating Commission for Postsecondary Education						
Leveraging Educational Assistance Partnership Fund for the Improvement of Postsecondary Educ	(CCPE)	84.069	21,036	8,506	9,637	39,179
Improving Teacher Quality State Grants	CCPE	84.116	100,000	-	-	100,000
College Access Challenge Grant Program	CCPE	84.367	17,064	-	-	17,064
	CCPE	84.378	-	14,000	6,885	20,885
<i>Total U.S. Department of Education</i>			<u>\$ 20,801,068</u>	<u>\$ 11,738,517</u>	<u>\$ 14,799,816</u>	<u>\$ 47,339,401</u>
<i>U.S. Department of Agriculture:</i>						
Plant and Animal Disease, Pest Control, and Animal Care	USDA	10.025	\$ -	\$ -	\$ 9,380	\$ 9,380
<i>Total U.S. Department of Agriculture</i>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,380</u>	<u>\$ 9,380</u>
<i>U.S. Department of Housing and Urban Development:</i>						
Office of Community Planning and Development		14.251	\$ 292,200	\$ -	\$ -	\$ 292,200
<i>Total U.S. Department of Housing and Urban Development</i>			<u>\$ 292,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,200</u>

(Continued)

NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2011

<b>Federal Agency Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>CFDA #</b>	<b>Wayne</b>	<b>Peru</b>	<b>Chadron</b>	<b>FY 2011 Expenditures</b>
<i>Department of Transportation:</i>						
State & Community Highway Safety	University of Nebraska- Lincoln (UNL)	20.601	\$ 800	\$ -	\$ -	\$ 800
<i>Total Department of Transportation</i>			<u>\$ 800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 800</u>
<i>National Science Foundation:</i>						
Biological Sciences	National Science Foundation Academy of Natural Sciences of Philadelphia	47.074	\$ 28,790	\$ 66,421	\$ -	\$ 95,211
Social, Behavioral, and Economic Sciences	UNL	47.075	44,398	-	-	44,398
<i>Total National Science Foundation</i>			<u>\$ 73,188</u>	<u>\$ 66,421</u>	<u>\$ -</u>	<u>\$ 139,609</u>
<i>U.S. Small Business Administration:</i>						
Small Business Development Centers	University of Nebraska- Omaha (UNO)	59.037	\$ 61,248	\$ -	\$ 29,419	\$ 90,667
<i>Total U.S. Small Business Administration</i>			<u>\$ 61,248</u>	<u>\$ -</u>	<u>\$ 29,419</u>	<u>\$ 90,667</u>
<i>U.S. Department of Health &amp; Human Services:</i>						
Center for Disease Control & Prevention - Investigations & Technical Assistance	Nebraska Department of Health & Human Services	93.283	\$ -	\$ -	\$ 17,677	\$ 17,677
National Center for Research Resources	University of Nebraska Medical Center (UNMC)	93.389	105,089	-	6,326	111,415
<i>Total U.S. Department of Health &amp; Human Services</i>			<u>\$ 105,089</u>	<u>\$ -</u>	<u>\$ 24,003</u>	<u>\$ 129,092</u>
<i>Corporation For National &amp; Community Service:</i>						
Learn & Serve America - Higher Education	UNL & South Dakota State University (SDSU)	94.005	\$ 300	\$ -	\$ -	\$ 300
<i>Total Corporation For National &amp; Community Service</i>			<u>\$ 300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300</u>
<i>National Aeronautics and Space Administration:</i>						
Goddard Space Flight Center Grant	UNO	n/a	\$ -	\$ -	\$ 15,617	\$ 15,617
<i>Total National Aeronautics and Space Administration</i>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,617</u>	<u>\$ 15,617</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 21,333,893</u>	<u>\$ 11,804,938</u>	<u>\$ 14,878,235</u>	<u>\$ 48,017,066</u>

(Concluded)



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
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NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the business-type activities and the discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2011, which collectively comprise the Nebraska State College System's basic financial statements and have issued our report thereon dated February 27, 2012. Our report includes a reference to other auditors and an explanatory paragraph noting restrictions on audit procedures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Nebraska State College Foundations, Revenue and Refunding Bond Funds, and Facilities Corporation, as described in our report on the Nebraska State College System's financial statements. The financial statements of these entities were not audited in accordance with *Government Auditing Standards*. This report does not include our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors.

### Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as Findings #11-01 and #11-02 that we consider to be significant deficiencies in internal control over financial reporting. 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.

#### Compliance and Other Matters

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

We also noted certain matters that we reported to management of the NSCS in a separate letter dated February 27, 2012.

The NSCS's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the NSCS's responses and, accordingly, we express no opinion on the responses.

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

Signed Original on File

Lincoln, Nebraska  
February 27, 2012

Don Dunlap, CPA  
Assistant Deputy Auditor



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

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NEBRASKA STATE COLLEGE SYSTEM  
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)  
**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

## **Compliance**

We have audited the Nebraska State College System's (NSCS) (a component unit of the State of Nebraska) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the NSCS's major Federal program for the year ended June 30, 2011. The NSCS's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the NSCS's management. Our responsibility is to express an opinion on the NSCS's compliance based on our audit.

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

In our opinion the NSCS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2011.

## **Internal Control Over Compliance**

Management of the NSCS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the

NSCS's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the NSCS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as Findings #11-01, #11-02, and #11-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted certain matters that we reported to management of the NSCS in a separate letter dated February 27, 2012.

The NSCS's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the NSCS's responses and, accordingly, we express no opinion on the responses.

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

Signed Original on File

Lincoln, Nebraska  
February 27, 2012

Don Dunlap, CPA  
Assistant Deputy Auditor

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2011

**Summary of Auditor's Results:**

- a. Type of report issued as it related to the Nebraska State College System's (NSCS) basic financial statements: Unqualified.
- b. Significant deficiencies in internal control were disclosed by the audit of the financial statements and are included in the schedule of findings and questioned costs in Part II as Findings #11-01 and #11-02. These findings were not considered to be material weaknesses.
- c. The audit disclosed no instances of noncompliance which were material to the NSCS's basic financial statements.
- d. Significant deficiencies in internal control over the major program were disclosed by the audit and are included in the schedule of findings and question costs in Part III as Findings #11-01, #11-02, and #11-03. These findings were not considered to be material weaknesses.
- e. Type of report issued on compliance for major program: Unqualified.
- f. The audit disclosed audit findings, which are required to be reported in accordance with section 510(a) of OMB Circular A-133 and is included in the schedule of findings and questioned costs in Part III.
- g. The Student Financial Aid Cluster is considered a major program. The Student Financial Aid Cluster consists of the following:
  - CFDA #84.007 Federal Supplemental Educational Opportunity Grant
  - CFDA #84.033 Federal Work-Study Program
  - CFDA #84.038 Federal Perkins Loan Program-Federal Capital Contributions
  - CFDA #84.063 Federal Pell Grant Program
  - CFDA #84.268 Federal Direct Student Loans
  - CFDA #84.375 Academic Competitiveness Grants
  - CFDA #84.376 National Science and Mathematics Access to Retain Talent (SMART) Grants
  - CFDA #84.379 Teacher Education Assistance for College and Higher Education Grants
- h. The threshold used to distinguish between Type A and Type B programs: \$1,440,512
- i. The NSCS qualified as a low-risk auditee under OMB Circular A-133 Section .530.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

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

**Finding #11-01**

During audit fieldwork Nebraska State College System (NSCS) Executive Management issued email communications to **all** employees of the NSCS effectively restricting the full and open participation of the NSCS employees in the audit process. This finding relates to both the NSCS's basic financial statements and Federal awards and the complete finding, including the NSCS's Management Response and Corrective Action Plan, may be found in Part III of this Schedule.

**Finding #11-02**

We noted 13 State College users with access to NeSIS had the ability to log in as any established user by bypassing the established authentication process. These users could log in as subordinate's accounts, student's accounts, or employee's accounts. This ability did not require the user to know the other's password, nor would the account holder know if their account had been accessed or compromised in this manner. This finding relates to both the NSCS's basic financial statements and Federal awards and the complete finding, including the NSCS's Management Response and Corrective Action Plan, may be found in Part III of this Schedule.

**III. Findings and Questioned Costs Relating to Federal Awards:**

**Finding #11-01**

**Undue Influence of the NSCS's Executive Management**

**Program:** Due to the cross-cutting nature of this finding all Federal Awards, including the Student Financial Aid Cluster, are impacted. - Allowability

**Grant Number & Year:** Due to the cross-cutting nature of this finding all Federal Awards, including the Student Financial Aid Cluster, are impacted.

**Federal Grantor Agency:** U.S. Department of Education

**Criteria:** Neb. Rev. Stat. § 84-305 (Reissue 2008) states, in part, "the Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law . . ." In addition, under both the American Institute of Certified Public Accountants (AICPA) and Government



NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

Auditing (GAGAS) standards, auditors are required to plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In order for auditors to make informed risk assessment decisions in accordance with these standards, open and unrestricted access to information is vital.

**Condition:**

- On October 10, 2011, during audit fieldwork, the Chancellor of the Nebraska State College System issued an email communication to **all** employees of the NSCS instructing them that if they were contacted by audit staff to provide records or respond to questions they were to immediately inform management. Additionally, all employees were informed that they were **not** required to submit to any interviews with auditors or respond to verbal questions (see Exhibits A, B, and C attached). A subsequent email was also issued to **all** employees of the NSCS by the Chancellor on October 14, 2011 (see Exhibits D, E, and F attached). In that email the Chancellor stated, in part, “while you are not required to meet and/or speak with APA staff, you are free to do so if you so choose.” While the NSCS has asserted that it was not seeking to impede the Auditor of Public Accounts’ (APA) work, this type of restrictive communications issued by Executive Management of the State College System posed a significant, irreversible detriment to the APA’s ability to conduct a comprehensive audit of the NSCS operations.
- On December 14, 2011, the APA requested the email files of five Chadron State College (CSC) employees, as allowed under Neb. Rev. Stat. § 84-305. On December 15, 2011, the NSCS responded stating they would consider the APA request. Also on December 15, 2011, the APA responded requesting no emails be deleted or destroyed while the APA awaited the emails and mentioned NSCS Policy 5008 which states NSCS emails can be inspected. On January 10 and 11, 2012, the APA spoke with CSC staff to determine whether emails had been maintained for the period requested and CSC responded that the process of capturing emails requested started on January 5, 2012, and was completed on January 9, 2012. As a result, 25 days lapsed between the date of the APA’s initial request and the date NSCS captured the emails. On January 5, 2012, the NSCS requested a Nebraska Attorney General’s opinion on whether the NSCS was required to provide the requested emails. The Attorney General responded on January 31, 2012, that the NSCS was required to provide the emails. On February 2, 2012, the APA received the file of CSC emails that was captured on January 9, 2012.
- On January 15, 2012, a CSC employee, in response to specific APA questions regarding funds which had been under his control, declined to answer stating that the CSC Vice President of Administration and Finance had directed the employee not to answer and instead refer all APA questions to the NSCS’s Legal Counsel.

NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

- On January 24, 2012, in response to the APA's request for specific information regarding various funds identified and reportedly turned in to the CSC Foundation, the Vice Chancellor for Finance and Administration of the NSCS responded that "Chadron State will not provide the information requested regarding outside bank accounts of student clubs and organizations." (See **Exhibit G** attached)

While the NSCS has asserted that it was not seeking to impede the APA's work, its refusal to answer specific APA questions, provide requested information and/or records, and permit its Executive Management and others in positions of power with the State College System to issue restrictive communications to NSCS employees posed a significant, irreversible detriment to the APA's ability to conduct a comprehensive audit of the NSCS operations and completely and accurately assess potential financial reporting issues.

**Questioned Costs:** None

**Context:** For the fiscal year ended June 30, 2011, the NSCS expended \$48,017,066 in total Federal awards, with the Student Financial Aid Cluster representing 96% of the total Expenditures of Federal awards. Due to the cross-cutting nature of this finding all Federal Awards, including the Student Financial Aid Cluster, are impacted.

**Cause:** An audit of CSC Athletics was being conducted by the APA. As the APA has no knowledge of similar issues and/or communications at any time during the prior annual audits, the APA reasonably can conclude these issues were meant to disrupt the APA's audit of CSC Athletics.

**Effect:** As a result of these non-cooperation directives and refusals to cooperate with the audit process, there is a significant, irreversible risk that the NSCS employees will withhold essential information from auditors or will not share information that they might otherwise have had such directives and/or refusals not occurred.

**Recommendation:** The actions of the NSCS's Chancellor are difficult, if not impossible, to repair due to their long-term impact on auditor-auditee communications and the overall ability of the auditor to conduct a comprehensive, full, fair, and balanced audit of the State College System with **full** auditee cooperation. As a result of restrictive communications being issued to the NSCS employees and refusal of NSCS to answer specific questions and provide requested information, irreparable harm has been done to the APA's ability to conduct such an audit of the NSCS's operations. We recommend the Chairman of the Board of Trustees openly and clearly communicate with **all NSCS employees** the importance of their **complete, accurate, and unfiltered** communication and participation with any APA requests for information.

NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

**Management Response:** The NSCS communications are consistent with the direction provided in the Attorney General’s Opinion #12001. That opinion noted that the Auditor’s ability to question NSCS employees is not unlimited and further stated, “We do not believe the CSC employees are required to submit to oral interviews in the manner of depositions. Particularly under these circumstances, it would not be inappropriate for the NSCS to request that the Auditor put all questions relating to the audit in writing, with all responses from the NSCS and CSC also in writing. This will require the Auditor to pose specific questions, which the NSCS and CSC should answer as thoroughly and promptly as possible.”

After reviewing the APA’s recommendation, the Chair of the Board of Trustees asked that the following statement be included in this response, “The Chancellor has kept me and the entire Board informed of the issues and communication related to Chadron State athletics and the Auditor. I am very satisfied with the actions of the Chancellor.”

**Corrective Action Plan:** The NSCS will continue to cooperate with the APA, as legally required, on matters related to the financial audit of the NSCS.

**Contact:** Carolyn Murphy, Vice Chancellor for Finance and Administration, Phone: 402-471-2505 (contact approved by Chair of Board of Trustees)

**Anticipated Completion Date:** N/A

**APA Response:** In a letter dated February 22, 2012, the Office of the Attorney General clarified further, upon the request of the APA, the comments referenced by the NSCS from Op. Att’y Gen. No. I-12001 (January 31, 2012). The Attorney General explained:

*“ . . . we do not believe that you [the APA] are required to pose all specific questions relevant to a financial audit to the party being audited in writing. To the contrary, you may make oral inquiries of the party being audited, so long as they are proper and relevant in the context of the particular audit in process . . . ”*

All questions posed by the APA to NSCS employees throughout the course of this audit were distinctly relevant to the financial audit of the NSCS. Furthermore, it is incorrect to depict the APA’s discussions with NSCS employees as “depositions”, as the NSCS has asserted. At no point in the questioning of NSCS employees were any sworn testimonies requested by the APA, nor were any such sworn testimonies given by NSCS employees.

NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

More importantly, contrary to what the NSCS' response attempts to indicate, the true heart of the matter is not whether any questions posed by the APA during the audit should have been in writing. Rather, the issue addressed in the recommendation was the refusal of NSCS administrators to respond at all to the APA's questions, regardless of whether those inquiries happened to be verbal or written. Through both its actions and its communications with the APA and its own employees, the administration of the NSCS made clear its intention to oppose the audit by refusing to respond to relevant questions posed by the APA. This ongoing lack of cooperation was undertaken intentionally, despite the following pronouncement in Op. Att'y Gen. No. 02030 (Dec. 2, 2002):

*“. . . it seems to us that the Auditor can pose questions to auditees in the context of a proper financial audit. Given that authority, we also believe it likely that a court would order an agency to answer questions posed by the Auditor in the conduct of a proper financial audit, so long as those questions were pertinent to the audit.”*

To ensure the NSCS's complete and accurate financial reporting, we continue to recommend that the Chairman of the Board of Trustees convey openly and clearly to all NSCS employees the importance of their complete, accurate, and unfiltered communication and participation with any APA requests for information. Such communication is critical to the audit process because the tone set by the Board of Trustees to all of its employees plays a vital role in establishing and maintaining an ethical and accountable financial reporting environment.

**Finding #11-02**

**NeSIS Inappropriate Access to Change Passwords (State College System)**

**Program:** Student Financial Aid Cluster – Allowability

**Grant Number & Year:** Due to the cross-cutting nature of this finding all Student Financial Aid Cluster CFDA's open in the fiscal year ended June 30, 2011, are affected.

**Federal Grantor Agency:** U.S. Department of Education

**Criteria:** OMB Circular A-133 § 300 states, “The auditee shall...(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Continued)

IT Governance Institute's Control Objectives for Information and Related Technology (COBIT) states, in part, control objectives over user account management include a process to "Address requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges with a set of user account management procedures. Include an approval procedure outlining the data or system owner granting the access privileges. These procedures should apply for all users, including administrators (privileged users) and internal and external users, for normal and emergency cases. Rights and obligations relative to access to enterprise systems and information should be contractually arranged for all types of users. Perform regular management review of all accounts and related privileges."

A good internal control plan includes establishing a formal authentication process, which includes a normal process be established to change a user's password.

**Condition:** We noted 13 State College users with access to NeSIS had the ability to log in as any established user by bypassing the established authentication process.

**Questioned Costs:** None

**Context:** These users were not limited to accessing subordinate, student, or employee accounts. The ability did not require knowledge of another user's password, nor would the user know if their account was accessed or compromised in this manner.

**Cause:** Some users were using the access to log in as users for troubleshooting issues.

**Effect:** When users are allowed to circumvent established authentication controls, there is a decrease in accountability as one of these 13 users could log into NeSIS as someone else, and any changes made in the production environment would appear to have been performed by the actual owner of the user account.

**Recommendation:** We recommend the State College System remove this access. If this access is required in unique situations, we recommend it be temporarily granted only when needed. We also recommend implementing controls to immediately identify and document users who authenticate to NeSIS by bypassing established authentication processes.

**Management Response:** The NSCS is reviewing and removing, where appropriate, the identified individuals who have the ability to change a user's password.

NEBRASKA STATE COLLEGE SYSTEM  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

**Corrective Action Plan:** The NSCS has initiated a change request that will allow for “checking out” a password into a user’s account, based on the roles assigned to the person making the request and the roles assigned to the person whose account is being requested. These requests will be tracked.

**Contact:** Ed Hoffman, Vice Chancellor for Facilities, Planning and Information Technology, Phone: 402-471-2505

**Anticipated Completion Date:** FY 12

**Finding #11-03**

**COD Pell Payment Data Reporting**

**Program:** CFDA 84.063 - Federal Pell Grant Program - Reporting

**Grant Number & Year:** P063P1002640, FY2011

**Federal Grantor Agency:** U.S. Department of Education

**Criteria:** The U.S. Department of Education’s Common Origination and Disbursement (COD) system was implemented in April 2002 by the Office of Federal Student Aid (FSA), in part, to re-engineer the process of delivering and reporting on Federal Pell Grants into one Common Origination and Disbursement process which simplifies requesting, reporting, and reconciling of Title IV funds. Schools are required to utilize COD reporting for certain Federal programs, including the Federal Pell Grant Program. Pell origination records that COD users are required to submit to COD contain numerous key data items, including cost of attendance. Good internal control requires strict procedures be in place to ensure the College’s compliance with all Title IV reporting requirements.

**Condition:** Cost of attendance origination data for 10 of 10 Pell grant awards tested for complete and accurate COD reporting compliance were incorrect for Chadron State College (CSC). In November 2011, after being made aware of its cost of attendance COD reporting errors by the Auditor of Public Accounts, the College corrected 2010-2011 Pell cost of attendance reporting in the COD system.

**Questioned Costs:** None

**Context:** Federal Pell Grant Program awards for the fiscal year ended June 30, 2011, totaled \$3,560,835 for CSC. No exceptions were noted related to student eligibility for the Federal Pell Grant Program, with the context of this particular issue relating entirely to reporting of Pell Cost of Attendance to the U.S. Department of Education through the COD reporting system.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

**Cause:** A new NeSIS/PeopleSoft system for student data was implemented on July 1, 2010, and the College failed to verify that key data items, including cost of attendance, were correctly being transferred into COD from the new NeSIS/PeopleSoft system.

**Effect:** When the College does not have procedures in place to ensure complete and accurate reporting of all Federal Pell Grant Program key data items, there is an increased risk that data items reported to the U.S. Department of Education will be incorrect.

**Recommendation:** We strongly recommend the College implement procedures to ensure the complete and accurate reporting of all Federal Pell Grant Program key data items.

**Management Response:** For FY11, Chadron State has corrected the COD PELL budgets manually on the COD website.

**Corrective Action Plan:** This issue has been reported to the NSCS's software provider. A software solution has not yet been provided, however the College is closely following the issue.

**Contact:** Mr. Dale Grant, Vice President for Administration and Finance, Chadron State, Phone: 308-432-6202

**Anticipated Completion Date:** Manual correction has been completed. The procedures will be updated as soon as a software solution is identified.

**IV. Summary Schedule of Prior Year Audit Findings:**

No prior year audit findings

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

**Exhibit A**

**From:** Joni Backer [JoBacke1@wsc.edu]  
**t:** Monday, October 10, 2011 11:06 AM  
**cc:** carpenter, stanley h  
**Subject:** Message from Chancellor Carpenter

Dear Colleagues:

If you are contacted by staff from the Auditor of Public Accounts Office with a request to provide records or respond to written questions, please forward the request immediately to the College's Vice President for Administration and Finance. Vice President Jean Dale will gather requested documents and coordinate written responses and information for Auditor Mike Foley and his staff in a timely, efficient and cooperative manner.

As a Wayne State College employee, you are not required to submit to an interview with the Auditor of Public Accounts or respond to verbal questions. The College and the System Office are not seeking to impede inquiries from the Auditor's Office; however, it is important that the College administration is aware of the questions to ensure that answers are accurate and complete. The College will fully cooperate to make sure information and documents are provided in a timely manner.

Thank you for your prompt attention to these directions.

Chancellor Stan Carpenter



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

Exhibit B

Message from Chancellor Carpenter

Page 1 of 1

**Message from Chancellor Carpenter**

Linda Moody

**Sent:** Monday, October 10, 2011 11:46 AM

**To:** Linda Moody

**CC:** Stan Carpenter (scarpenter@nscs.edu)

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*In President Hanson's absence, I have been asked to forward the following message from Chancellor Carpenter.*

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October 10, 2011

Dear Colleagues:


The Auditor of Public Accounts will have staff on campus to conduct the College's annual audit from Tuesday, October 11 through Thursday, October 20. During that period of time, auditors may request written or electronic records and may have verbal or written questions for PSC employees. Please cooperate with all requests to the best of your ability. If you do not have information or records to satisfy any request, please forward the matter to Vice President Bruce Batterson as quickly as possible.

After October 20, if you are contacted by staff from the Auditor of Public Accounts Office with a request to provide additional records or respond to verbal or written questions, please forward the request immediately to Vice President Batterson. Vice President Batterson will gather requested documents and coordinate written responses and information for Auditor Mike Foley and his staff in a timely, efficient and cooperative manner. The College and the System Office are not seeking to impede inquiries from the Auditor's Office; however, it is important that the College administration is aware of the questions that arise after the on-campus visit has ended to ensure that answers are accurate and complete.

Thank you for your prompt attention to these directions.

Chancellor Stan Carpenter

Peru State College is an equal opportunity institution. PSC does not discriminate against any student, employee or applicant on the basis of race, color, national origin, sex, disability, religion, or age in employment and education opportunities, including but not limited to admission decisions. The College has designated an individual to coordinate the College's nondiscrimination efforts to comply with regulations implementing Title VI, VII, IX, and Section 504. Inquiries regarding nondiscrimination policies and practices may be directed to Eularia Code, Director of Human Resources, Title VI, VII, IX Compliance Coordinator, Peru State College, PO Box 10, Peru, NE 68421-0010, (402) 872-2230.

Please consider the environment before printing this email 

<https://webmail.peru.edu/owa/?ac=Item&t=IPM.Note&id=RgAAAACmSjfBtLMvSLkpS...> 10/11/2011

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

Exhibit C

**From:** Pamela J. Anderson  
**Date:** Monday, October 10, 2011 10:10 AM  
**To:** CSC Employees  
**Cc:** [scarpenter@nscs.edu](mailto:scarpenter@nscs.edu)  
**Subject:** Message from Chancellor Carpenter

Dear Colleagues:

If you are contacted by staff from the Auditor of Public Accounts Office with a request to provide records or respond to written questions, please forward the request immediately to the College's Vice President for Administration and Finance. Vice President Dale Grant will gather requested documents and coordinate written responses and information for Auditor Mike Foley and his staff in a timely, efficient and cooperative manner.

As a Chadron State College employee, you are not required to submit to an interview with the Auditor of Public Accounts or respond to verbal questions. The College and the System Office are not seeking to impede inquiries from the Auditor's Office; however, it is important that the College administration is aware of the questions to ensure that answers are accurate and complete. The College will fully cooperate to make sure information and documents are provided in a timely manner.

Thank you for your prompt attention to these directions.

Chancellor Stan Carpenter

Pamela J. Anderson  
Secretary to the President  
Chadron State College  
1000 Main Street  
Chadron, NE 69337  
308-432-6201  
[panderson@csc.edu](mailto:panderson@csc.edu)

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

Exhibit D

**From:** Connie Kearney [CKearney@peru.edu]  
**Sent:** Friday, October 14, 2011 3:28 PM  
**To:** Connie Kearney  
**Cc:** Stan Carpenter  
**Subject:** Message from Chancellor Carpenter



*Message from the Chancellor*

Colleagues:

Some questions have been raised regarding employees' interaction with the Auditor of Public Accounts (APA).

Let me be clear that while you are not required to meet and/or speak with APA staff, you are free to do so if you so choose. And, if you choose to speak with APA staff, you are free to answer any questions they might pose.

Further, if you ever have any audit concerns or become aware of fraud, do not hesitate to contact the APA anonymously at 1-800-842-8348 or visit the auditor's website at [www.auditors.state.ne.us](http://www.auditors.state.ne.us).

I trust this clarifies any misunderstanding that may have occurred from my last note to you.

Stan Carpenter  
Chancellor

The Nebraska State College System adheres to equal opportunity practices. It does not discriminate on the basis of race, color, national origin, sex, disability, religion, or age in employment and education opportunities. The Nebraska State College System has designated an individual to coordinate the nondiscrimination efforts to comply with regulations implementing Title VI, VII, IX, and Section 504. Inquiries regarding nondiscrimination policies and practices may be directed to Ms. Kristin Petersen, General Counsel and Vice Chancellor for Employee Relations, NSCS, P.O. Box 94605, 1115 K Street, Suite 102, Lincoln, NE 68509-4605.

Please consider the environment before printing this email A small graphic of a recycling symbol, consisting of three chasing arrows forming a triangle.

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

**Exhibit E**

**From:** Robin Labenz [rolaben1@wsc.edu]  
**Sent:** Friday, October 14, 2011 3:24 PM  
**Cc:** carpenter, stanley h  
**Subject:** Message from Chancellor Carpenter

Colleagues:

In my last note to you I indicated that you were not required to submit to an interview with the Auditor of Public Accounts (APA) staff or respond to verbal questions. Auditor Foley has indicated that there may have been some misunderstanding about this matter.

My communication to you was the result of concerns raised by some employees who were contacted and felt they had to immediately rearrange work schedules to meet with APA staff.

Let me be clear that while you are not required to meet and/or speak with APA staff, you are free to do so if you so choose. And, if you choose to speak with APA staff, you are free to answer any questions they might pose.

Further, if you ever have any audit concerns or become aware of fraud, do not hesitate to contact the APA anonymously at 1-800-842-8348 or visit the auditor's website at [www.auditors.state.ne.us](http://www.auditors.state.ne.us).

I trust this clarifies any misunderstanding that may have occurred from my last note to you.

Stan Carpenter, Chancellor

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

**Exhibit F**

**From:** anderson, pamelaj  
**Sent:** Friday, October 14, 2011 3:09 PM  
**To:** CSC Employees  
**Cc:** carpenter, stanley h  
**Subject:** Message from Chancellor Carpenter

Colleagues:

In my last note to you I indicated that you were not required to submit to an interview with the Auditor of Public Accounts (APA) staff or respond to verbal questions. Auditor Foley has indicated that there may have been some misunderstanding about this matter.

My communication to you was the result of concerns raised by some employees who were contacted and felt they had to immediately rearrange work schedules to meet with APA staff.

Let me be clear that while you are not required to meet and/or speak with APA staff, you are free to do so if you so choose. And, if you choose to speak with APA staff, you are free to answer any questions they might pose.

Further, if you ever have any audit concerns or become aware of fraud, do not hesitate to contact the APA anonymously at 1-800-842-8348 or visit the auditor's website at [www.auditors.state.ne.us](http://www.auditors.state.ne.us).

I trust this clarifies any misunderstanding that may have occurred from my last note to you.

Stan Carpenter, Chancellor

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

Exhibit G

**Bliemeister, Tom**

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**From:** Carolyn Murphy [cmurphy@nscs.edu]  
**Sent:** Wednesday, January 25, 2012 9:15 AM  
**To:** Bliemeister, Tom  
**Cc:** grant, dale e; Dunlap, Don; Steinbrecher, Sandy  
**Subject:** Re: outside bank accounts

Good morning, Tom:

From an e-mail sent by the Chancellor to Auditor Foley on 1/6/2012:

*After your last e-mail I asked the College if any other accounts had been discovered. I was informed late yesterday that after the BKD report was issued some folks came forward to disclose other accounts.*

*I understand you are already aware of the rodeo club account, the art guild club account and the health professions club concessions account. In addition to these student club accounts, I learned that the health professions club had an additional account for the sports medicine program and the ag club had an account as well. As I understand it, all of these accounts have now been transferred to the Foundation as custodial accounts. Each of these student clubs were authorized to have an account and the monies contained in the accounts were student funds. As I said in my e-mail to you yesterday, we are in the process of looking at all student club accounts to determine the best practices for handling such matters. As I'm sure you are aware, part of the student club experience is a learning opportunity, one that includes how to handle money, checking accounts and other financial transactions.*

The clubs noted above approached the College and asked about their accounts. They were advised that they could close the accounts and have the monies handled through the Chadron State Foundation. We understand they chose to do that.

Thanks.

Carolyn

Carolyn Murphy  
Vice Chancellor for Finance and Administration  
Nebraska State College System  
P.O. Box 94605  
1115 K Street, Suite 102  
Lincoln, NE 68509  
(402) 471-2505  
>>> "Bliemeister, Tom" <[tom.bliemeister@nebraska.gov](mailto:tom.bliemeister@nebraska.gov)> 1/24/2012 2:28 PM >>>  
Carolyn or Dale,

Did CSC Clubs, outside of the football program, close their outside bank accounts and deposit the funds with the CSC Foundation after our field work was completed on October 28, 2011?

If so, what dates were the accounts closed?

NEBRASKA STATE COLLEGE SYSTEM  
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**Exhibit G**

Tom Bliemeister

Tom Bliemeister  
Auditor of Public Accounts  
Room 2303 State Capitol  
Lincoln, NE 68509  
402-326-3075  
[Tom.Bliemeister@nebraska.gov](mailto:Tom.Bliemeister@nebraska.gov)

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NEBRASKA STATE COLLEGE SYSTEM  
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Exhibit G

**Bliemeister, Tom**

---

**From:** Carolyn Murphy [cmurphy@nscs.edu]  
**Sent:** Tuesday, January 24, 2012 9:24 AM  
**To:** Bliemeister, Tom  
**Cc:** grant, dale e; Steinbrecher, Sandy  
**Subject:** Re: outside bank accounts

Tom:

The NSCS position remains that student accounts are not College funds. Use of such funds are directed by the students. In accordance with Dale Grant's earlier response, Chadron State will not provide the information requested regarding outside bank accounts of student clubs and organizations. Any additional questions regarding this matter can be directed to me.

Thank you.

Carolyn

Carolyn Murphy  
Vice Chancellor for Finance and Administration  
Nebraska State College System  
P.O. Box 94605  
1115 K Street, Suite 102  
Lincoln, NE 68509  
(402) 471-2505  
>>> "Bliemeister, Tom" <tom.bliemeister@nebraska.gov> 1/23/2012 12:13 PM >>>  
Dale,

Your email on January 11, 2012, related to our request for information on the other clubs outside bank accounts, stated the following:

"The funds you are asking about are even further removed from the College's control. The club/student organization accounts are the student's funds that are not generated by the Student Activity Fee and the College has no control over these funds."

"All of the accounts you requested information on are clubs or student organizations recognized by the College. The College does not transfer, collect, or in any way provide any funds to these outside accounts, nor does the College expend any funds for these accounts. As such, they are not part of the College's audit and the student clubs and organizations are not subject to the College's audit. Consequently, we will not provide information on this matter."

Your email also referred to Board policies #6018 and #6022. Board Policy 6018 Other Trust Funds states in part, "The State Colleges are authorized to establish other sub-accounts in the Trust Fund account into which restricted funds which are provided by students or other entities for a specific purpose can be deposited and expended. Examples of other sub-accounts that are authorized by this policy include Student Event Fee and Student Publications. These distinct sub-accounts shall be used to account for each restricted fund separately from all others in the Trust Fund. If campus Student Organizations collect revenues for their specific operations and those funds are deposited into and expended from the Trust Fund in accordance with campus policies and procedures, a separate sub-account shall be established to account for those funds separately from all others in the Trust Fund.



NEBRASKA STATE COLLEGE SYSTEM  
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**Exhibit G**

We agree, if the funds in these outside bank accounts are not required to be deposited with the State Treasury, then the funds are not subject to the College's audit. However, our initial questions were specifically directed to determine whether the activity in these outside bank accounts were or were not related to Chadron State College based upon Attorney General's Opinion #07016, issued September 24, 2007, which opines that funds raised using State property, other assets, or employees are to be deposited with the State Treasury, unless specifically exempted by statute.

Therefore, we are attempting to determine whether all funds due to Chadron State College are collected and deposited to the proper CSC accounts and request the questions previously submitted be answered.

As we are working to complete our audit, we request a response to the questions or a written response stating you will not be responding.

**Questions previously submitted.**

**Questions concerning the process used to determine other clubs with outside bank accounts**

1. Describe the process used to determine which clubs held outside bank accounts. Provide examples of all forms or emails sent out to the clubs.
2. Provide a listing of the clubs contacted during this process. How did you determine all clubs were contacted?
3. When was this process begun? Provide support documentation for this date.
4. What instructions were sent to the clubs with outside bank accounts?

**Questions for the clubs that the APA is aware had outside bank accounts (Ag Club, Rodeo Club, Art Guild, Health Professions Club, and Sports Medicine Club)**

1. What was the official name of the bank account?
2. What names were on the bank account signature cards? Include titles for all individuals listed.
3. When was the bank account established?
4. When was the account closed?
5. What is the intended use of the account proceeds or donations?
6. What are the types and sources of revenues?
7. What documentation was maintained to support deposits to the account?
8. Who prepared deposits to the account?
9. Did anyone else approve the deposits?
10. Was cash collected ever withheld from deposits and spent instead? If so, how was this money spent and what documentation of the expenditure was maintained?
11. Did the Club accept checks as payments to the Club? If so, whom were the checks written to?
12. What types of expenditures were made from the account?

NEBRASKA STATE COLLEGE SYSTEM  
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**Exhibit G**

13. Who approved the expenditures from the account?
14. Who signed the checks from the account?
15. Were 2 signatures on the checks required?
16. What documentation was maintained to support expenditures on the account?
17. Were checks ever written to "Cash"? If so, how was this money spent and what documentation of the expenditure was maintained?
18. Complete the attached worksheet documenting the bank account activity for the last three years.
19. Provide a copy of the final check closing the account and turning the funds over to the CSC Foundation.

Please let me know if you have any further questions or concerns.

Tom Bliemeister  
Auditor of Public Accounts  
Room 2303 State Capitol  
Lincoln, NE 68509  
402-326-3075  
Tom.Bliemeister@nebraska.gov

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