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

JULY 1, 2012 THROUGH JUNE 30, 2013

Issued on December 20, 2013

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 AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component units of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska State College System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accompanying financial statements of Chadron State, Peru State, and Wayne State Foundations (Foundations), discretely presented component units of the Nebraska State College System, as of and for the year ended June 30, 2013, December 31, 2012, and June 30, 2013, respectively. Those statements are presented separately on pages 14 through 16, 19 through 21, and 24 through 26. We also did not audit the financial statements of the Nebraska State College System Revenue and Refunding Bond Fund, a blended component of the Nebraska State College System, and the Nebraska State Colleges Facilities Corporation, a blended component unit of the Nebraska State College System, as of and for the year ended June 30, 2013, which represent 11 percent, 77 percent, and 19 percent, respectively, of the assets, liabilities, and revenues of the primary government. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State Colleges Facilities Corporation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundations, Revenue and Refunding Bond Fund, and the Facilities Corporation were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska State College System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Nebraska State College System, as of June 30, 2013, and December 31, 2012 (Peru State Foundation) and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nebraska State College System's basic financial statements. The accompanying Combining Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nebraska State College System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska
December 18, 2013

Don Dunlap, CPA
Assistant Deputy Auditor

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, 2013. The analysis has been prepared by management of the NSCS and is intended to be read with the financial statements and the related footnotes that follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE NSCS AS A WHOLE

The NSCS includes Chadron State College (CSC), Peru State College (PSC), Wayne State College (WSC), and the NSCS System 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 System Office.

The audit for the fiscal year ended June 30, 2013, 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 Position as of June 30

	Primary Government	
	2013	**2012**
Current Assets	$ 44,933,599	$ 48,617,732
Non-current Assets		
Capital Assets, Net	167,059,343	158,935,000
Other Non-current Assets	26,818,663	21,893,952
Total Assets	238,811,605	229,446,684
Current Liabilities	13,350,380	20,018,882
Non-current Liabilities	46,328,033	41,241,652
Total Liabilities	59,678,413	61,260,534
Net Position		
Net Investment in Capital Assets	121,479,570	109,661,403
Restricted	34,901,927	38,072,695
Unrestricted	22,751,695	20,452,052
Total Net Position	$ 179,133,192	$ 168,186,150

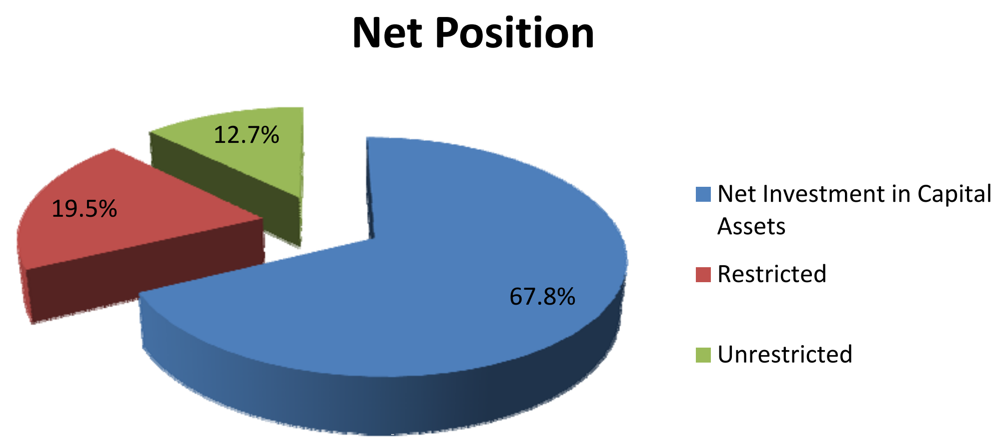
Nebraska State College System
Changes in Net Position For Year Ended June 30

	2013	2012
Operating Revenues		
Tuition and Fees, Net	$ 25,841,195	$ 24,526,441
Federal and State Grants and Contracts	14,410,832	15,423,280
Private Grants and Contracts	2,151,578	1,904,366
Auxiliary Enterprises, Net	16,989,768	16,025,226
Other Operating Revenues	295,536	201,109
Total Operating Revenues	59,688,909	58,080,422
Operating Expenses	105,866,375	100,996,911
Operating Loss	(46,177,466)	(42,916,489)
Non-operating Revenues (Expenses)		
State Appropriations	46,144,042	44,848,541
Investment Income	1,200,892	1,214,319
Interest on Capital Asset-Related Debt	(1,189,345)	(1,552,828)
Gain (Loss) on Disposal of Asset	(14,396)	4,331
Other Non-operating (Expenses)	435,982	(276,225)
Net Non-operating Revenues	46,577,175	44,238,138
Income (Loss) before Other Revenues, Expenses, Or Gains (Losses)	399,709	1,321,649
Other Revenues, Expenses, or Gains (Losses)		
Capital Appropriations and Grants	6,669,239	5,605,636
Capital Contributions	1,793,136	1,026,070
Capital Facilities Fee	2,084,958	2,028,068
Net Other Revenues, Expenses, or Gains (Losses)	10,547,333	8,659,774
Increase in Net Position	10,947,042	9,981,423
Net Position, Beginning of Year	168,186,150	158,204,727
Net Position, End of Year	$ 179,133,192	$ 168,186,150

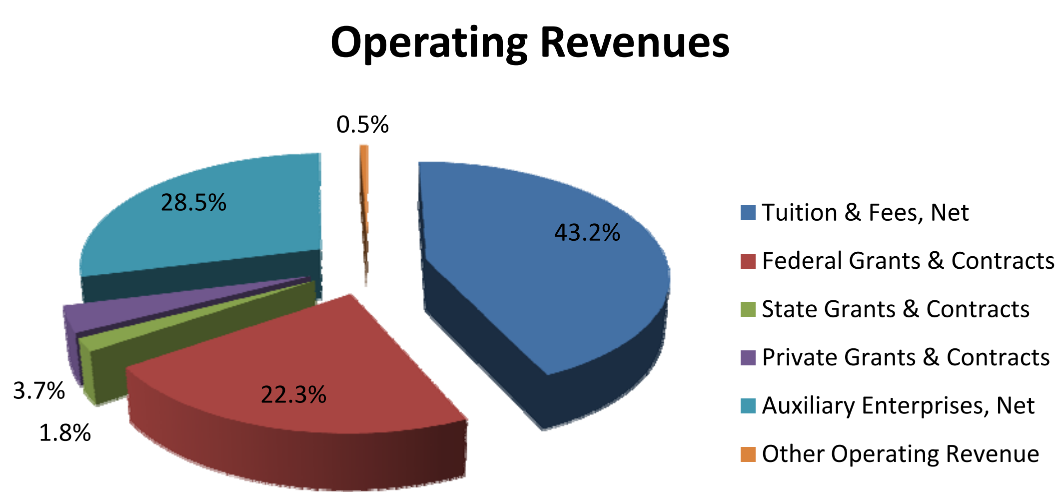
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

CHANGES IN NET POSITION

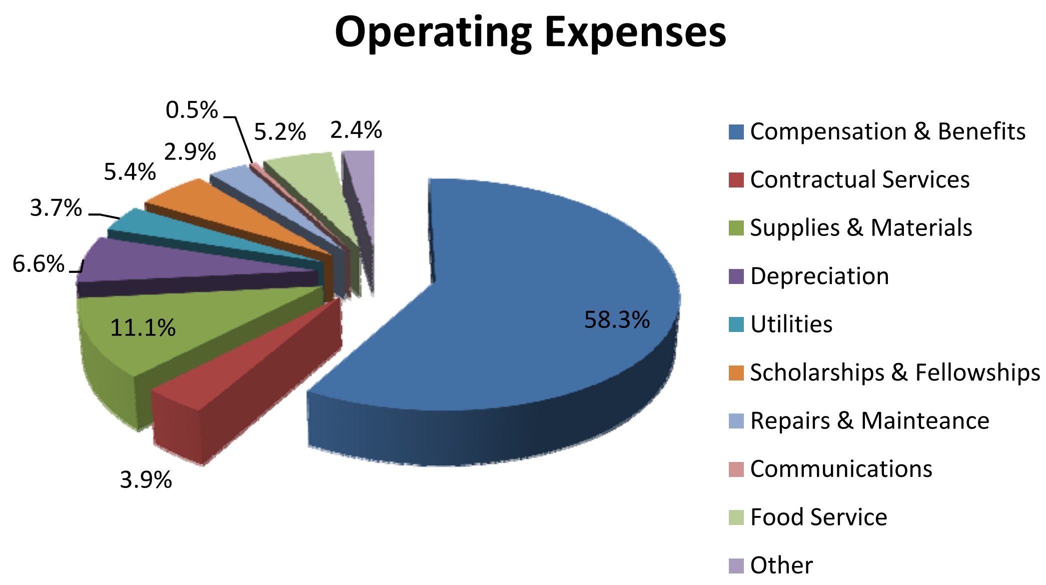
At June 30, 2013, the NSCS had a net position of $179.1 million, an increase of $10.9 million or 6.5% over 2012. Net position was comprised of unrestricted - $22.7 million; restricted - $34.9 million, and net investment in capital assets - $121.5 million.



The operating revenues were $59.7 million, compared to $58.1 million in 2012, a 2.8% increase. Operating revenues include $25.8 million in net tuition and fees, federal grants and contracts of $13.3 million, state grants and contracts of $1.1 million, private grants and contracts of $2.2 million, net auxiliary enterprises of $17.0 million, and other operating revenues of $0.3 million.

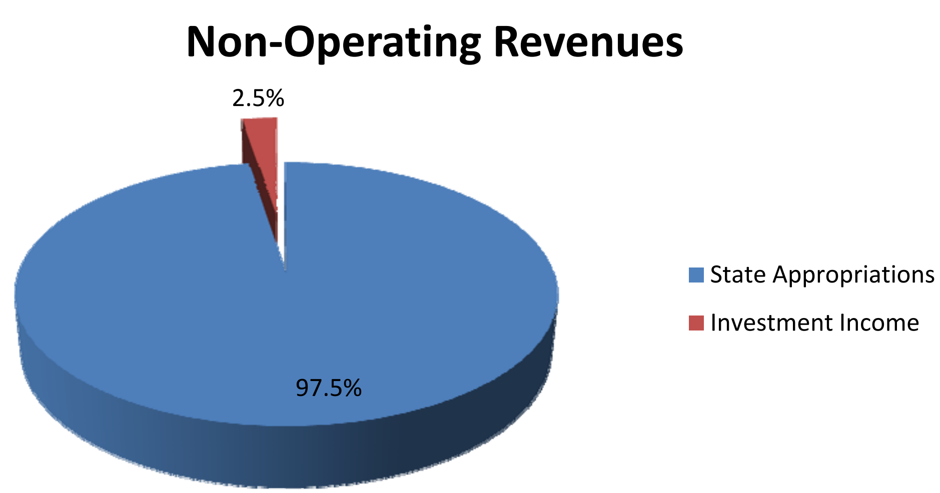


Operating expenses for the year ended June 30, 2013, amounted to $105.9 million, compared to $101.0 million in 2012. Compensation and benefits accounted for $61.8 million, or 58.3% of the total; contractual services were $4.1 million; supplies and materials, $11.8 million; depreciation, $7.0 million; and utilities, $3.9 million. Other operating expenses consisted of scholarships and fellowships, $5.7 million; repairs and maintenance, $3.1 million; communications, $0.5 million, food service, $5.5 million; and other operating expenses, $2.5 million.



The current year operating loss amounted to $46.2 million, compared to an operating loss in 2012 of $42.9 million.

Non-operating revenues consist of state appropriations and investment income.



The most significant change in the schedule of net position from the fiscal year ended June 30, 2012, to the fiscal year ended June 30, 2013, was a decrease in both current restricted cash and cash equivalents and the current portion of long-term debt. The decrease in these two accounts was due to bond refunding which crossed fiscal years. Bond Refunding Series 2012 proceeds were received in fiscal year 2012; however, Bond Series 2002 could not be refunded until July 2012. The schedule of net position also had an increase in net capital assets of $8.1 million, most of which is related to Armstrong renovation and Rangeland Center construction at Chadron State; renovations of Carhart Science Building, Hahn Administration Building, and Willow Bowl at Wayne State; and renovations of Morgan Hall and Oak Bowl at Peru State.

Tuition and fee income increased $1.3 million or 5.4%, and auxiliary enterprise revenues increased $1.0 million, or 6.0% from the prior fiscal year. Federal, State, and private grants and contracts had a reduction of $0.8 million or 4.4%.

Non-operating revenues reflect a $1.3 million or 2.9% increase in expenditure of state appropriations and a 1.1% decrease in investment income.

Operating expenses for the year ended June 30, 2013, increased by $4.9 million or 4.8%. Within the operating expenses category, compensation and benefits increased approximately $2.8 million and repairs and maintenance increased $1.2 million. Health insurance premiums increased slightly in 2012-2013 with the overall composite rates for medical and dental insurance increasing 2.8%.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2013, the NSCS had recorded $248.9 million in gross capital assets. During the fiscal year ended June 30, 2013, the investment in buildings and improvements increased by $23.7 million; furniture, fixtures, and equipment increased by $0.9 million; and construction in progress decreased by $9.8 million. At the end of the fiscal year, the NSCS had $81.8 million in accumulated depreciation that left $167.1 million in net capital assets.

At the end of the fiscal year, the NSCS had $49.6 million in long-term liabilities. These consisted primarily of outstanding bonded indebtedness of $45.5 million and $3.8 million in accrued compensated absences. Additional debt of $7.7 million was issued and previously existing bond obligations were reduced by $11.2 million. The bond obligation reduction amount included $8.9 million from the defeasment of Series 2002 debt. Series 2002 bonds were defeased on July 1, 2012, using proceeds from Series 2012 which were issued in May 2012.

Several construction projects have been completed at the Colleges, including the Phase III of the WSC Carhart Science renovation project, the WSC the Hahn building upgrade, the WSC Willow Bowl restoration, the CSC flag plaza, the CSC Kline Center parking lot replacement and upgrade, and the PSC Morgan Hall renovation. Projects were completed using LB 309 building renewal task force funds, College cash funds, revenue bond funds, Foundation funds, and private funds. Renovation and construction was also in progress several projects, including the CSC

Rangeland Center Phase I, the CSC Armstrong Gymnasium renovation and addition, the CSC Eagle Ridge, the WSC soccer field expansion, the WSC field turf/track resurfacing, and the PSC Oak Bowl renovation. These projects are being funded through various sources including: state appropriations, the LB 309 building renewal task force, College cash funds, and/or privately raised funds. Planning was in the process for Rangeland Center Phase II at CSC and U.S. Conn Library renovation at WSC.

All projects using bond proceeds from LB 605 have been completed. At the September 6, 2013, Board of Trustees meeting, the Board closed out LB 605 projects by adjusting authorized projects amounts by any unspent allocations. Various deferred repair and fire and life safety upgrades are in progress at all three Colleges.

See the notes to the financial statements for additional discussion of capital assets and long-term liabilities.

ECONOMIC OUTLOOK AND SUBSEQUENT EVENTS THAT WILL AFFECT THE FUTURE

State funding for the NSCS is increasing for the 2013-2015 biennium. The Governor and Legislature approved state funding for the NSCS at $47,496,183 for 2013-2014, an increase of 4.5%. Funding for 2014-2015 was approved at $49,396,030, an increase of $1,899,847 or 4.0% over 2013-2014 funding levels. During the 2013 legislative session, the Legislature also passed LB 198, which authorized the appropriation of state funds to be used for the payment of new facility bonds. Bond proceeds will be used for the construction of laboratory, classroom, office, and herbarium space for the Rangeland Center at CSC and the renovation of the U.S. Conn Library at WSC. Rangeland Center and U.S. Conn Library project costs estimated to be met by State appropriations are $3,696,470 and $12,000,000 respectively. The legislature expressed its intent to appropriate each fiscal year from the general fund an amount not less than $2,216,000 to be used for the construction of the projects which the NSCS intends to finance via Facilities Corporation bonds. New bonds are expected to be issued in late 2013 to be closed in early 2014.

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

In accordance with the NSCS Bargaining Unit agreements for 2013-2015, professional staff with a 1.0 full time equivalent (FTE) will receive an $835 increase in annual base salary for the 2013-2014 fiscal year (those with less than a 1.0 FTE will have a prorated amount) and a 2.0% increase in the 2014-2015 fiscal year. Faculty will receive a 2.0% increase for both the 2013-2014 and the 2014-2015 fiscal years. Support staff will also receive a 2.0% increase for both the 2013-2014 and the 2014-2015 fiscal years, while maintaining longevity increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
(Continued)

In addition to receiving notification of a 6.25% premium increase in health insurance rates for 2013-2014, the NSCS has also been notified that premium rates for the 2014-2015 year will increase an additional 2.3%.

Enrollment at the State Colleges (annual FTE) remained relatively stable for 2012-2013. Fall enrollments are also expected to remain stable for 2013-2014. The NSCS continues to engage in an increased emphasis on enrollment management and marketing.

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET POSITION
June 30, 2013

Assets		
Current Assets		
Cash and Cash Equivalents	$	26,515,708
Restricted Cash and Cash Equivalents		14,897,475
Accounts Receivable, Net of Allowance		1,868,451
State Grants and Appropriations Receivable		300,920
Other Receivables		179,910
Inventories		139,294
Loans to Students, Net		366,947
Prepaid Expenses		646,378
Deposits with Vendors		18,516
Total Current Assets		44,933,599
Non-current Assets		
Restricted Cash and Cash Equivalents		24,108,773
Loans to Students, Net		1,921,527
Capital Assets, Net		167,059,343
Unamortized Bond Issue Costs, Net		730,261
Unamortized Bond Refunding Amount, Net		25,511
Other Non-Current Assets		32,591
Total Non-current Assets		193,878,006
Total Assets		238,811,605
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities		8,911,203
Accrued Compensated Absences		423,620
Unearned Revenue		346,542
Interest Payable		746,734
Long-term Debt		2,861,046
Deposits Held in Custody for Others		61,235
Total Current Liabilities		13,350,380
Non-current Liabilities		
Accrued Compensated Absences		3,381,783
Unamortized Bond Premium		149,441
Long-term Debt		42,796,809
Total Non-current Liabilities		46,328,033
Total Liabilities		59,678,413

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF NET POSITION
June 30, 2013

Net Position		
Net Investment in Capital Assets		121,479,570
Restricted for:		
Expendable:		
Loans		2,541,121
Debt service		25,509,732
Plant		3,974,066
Other		2,877,008
Unrestricted		22,751,695
Total Net Position	$	179,133,192

(Concluded)

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

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

CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS		
Cash and Cash Equivalents - Unrestricted	$	1,303,524
Cash and Cash Equivalents - Restricted		121,263
Certificates of Deposit		1,116,645
Investments		16,933,596
Contributions Receivable, Net of Allowance for Uncollectible Pledges of $88,090		716,112
Other Assets		529,742
Property and Equipment, Net of Accumulated Depreciation		38,500
TOTAL ASSETS	$	20,759,382
LIABILITIES AND NET ASSETS		
Accounts Payable	$	7,393
Wages Payable		25,966
Scholarships Payable		419,252
Deferred Revenue		61,633
Due to Other Agencies		155,380
TOTAL LIABILITIES		669,624
Unrestricted Net Assets:		
Operating Fund (Deficit)		62,343
CSC General Fund		593,293
CSC Quasi Endowment		529,200
Greatest Need		1,252,127
Total Unrestricted Net Assets		2,436,963
Temporarily Restricted Net Assets:		
Donor Designated		1,293,521
Named Endowment Activity		2,036,930
Total Temporarily Restricted Net Assets		3,330,451
Permanently Restricted Net Assets:		
Named Endowment		14,322,344
TOTAL NET ASSETS		20,089,758
TOTAL LIABILITIES AND NET ASSETS	$	20,759,382

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

PERU STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	1,260,012
Unconditional Promises to Give		9,480
Interest Receivable		5,629
Prepaid Expenses		93,517
Current Portion of Notes Receivable		20,334
TOTAL CURRENT ASSETS		1,388,972
PROPERTY AND EQUIPMENT		
Land		60,947
Office Furniture and Fixtures		35,681
Vehicles		23,650
TOTAL PROPERTY AND EQUIPMENT		120,278
Less Accumulated Depreciation		40,054
NET PROPERTY AND EQUIPMENT		80,224
OTHER ASSETS		
Investments		10,229,216
Real Estate Held for Future College Use		174,816
Notes Receivable, Less Current Portion		137,855
TOTAL OTHER ASSETS		10,541,887
TOTAL ASSETS	$	12,011,083
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$	12,464
Accrued Compensation		56,136
Accrued Expenses		1,445
Refundable Deposits		64,376
Current Portion of Notes Payable		216,692
Current Portion of Gift Annuity		76,847
TOTAL CURRENT LIABILITIES		427,960
LONG-TERM LIABILITIES		
Note Payable, Less Current Portion		2,500
Gift Annuity, Less Current Portion		905
TOTAL LONG-TERM LIABILITIES		3,405
TOTAL LIABILITIES		431,365
NET ASSETS		
Unrestricted Net Assets:		
Operating		2,811,920
Board Designated		1,177,701
TOTAL UNRESTRICTED NET ASSETS		3,989,621
Temporarily Restricted		1,952,577
Permanently Restricted		5,637,520
TOTAL NET ASSETS		11,579,718
TOTAL LIABILITIES AND NET ASSETS	$	12,011,083

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, 2013

ASSETS		
Cash and Cash Equivalents - Unrestricted	$	83,911
Cash and Cash Equivalents - Restricted		471,421
Total Cash and Cash Equivalents		555,332
Accrued Interest Receivable		543
Inventory		2,549
Unconditional Promises to Give		323,454
Other Receivables		1,000
Investments		16,278,706
Property		302,973
Cash Value Life Insurance		82,542
Assets Restricted for Annuity Contracts		
Investments		1,047,529
Assets Held in Perpetual Trust		
Investments		824,457
TOTAL ASSETS	$	19,419,085
LIABILITIES AND NET ASSETS		
Accounts & Faculty Grants Payable	$	58,290
Deferred (Unearned) Event Revenue		2,700
Annuities Payable		479,606
Total Liabilities		540,596
Net Assets:		
Unrestricted:		
Undesignated		2,154,357
Endowment Funds Deficit		(13,507)
Designated		263,651
Total Unrestricted Net Assets		2,404,501
Temporarily Restricted		3,492,010
Permanently Restricted		12,981,978
Total Net Assets		18,878,489
TOTAL LIABILITIES AND NET ASSETS	$	19,419,085

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

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Fiscal Year Ended June 30, 2013

Operating Revenues	
Tuition and Fees Net of Scholarship Allowances and Institutional Waivers Totaling $11,258,559	$ 25,841,195
Federal Grants and Contracts	13,353,472
State Grants and Contracts	1,057,360
Private Grants and Contracts	2,151,578
Auxiliary Enterprises Net of Scholarship Allowances and Institutional Waivers Totaling $3,482,243	16,989,768
Other Operating Revenues	295,536
Total Operating Revenues	59,688,909
Operating Expenses	
Compensation and Benefits	61,790,246
Contractual Services	4,053,127
Supplies and Materials	11,786,985
Scholarships and Fellowships	5,702,876
Depreciation	6,965,679
Utilities	3,899,344
Repairs and Maintenance	3,085,846
Communications	545,275
Food Service	5,493,702
Other	2,543,295
Total Operating Expenses	105,866,375
Operating Loss	(46,177,466)
Non-operating Revenue (Expenses)	
State Appropriations	46,144,042
Investment Income	1,200,892
Interest on Capital Asset-Related Debt	(1,189,345)
Gain (Loss) on Disposal of Asset	(14,396)
Other Non-operating Revenues (Expenses)	435,982
Net Non-operating Revenues (Expenses)	46,577,175
Income Before Other Revenues, Expenses, or Gains (Losses)	399,709

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2013

Other Revenues, Expenses, or Gains (Losses)		
Capital Facilities Fees		2,084,958
Capital Contributions		1,793,136
Capital Appropriations and Grants		6,669,239
Net Other Revenues, Expenses, or Gains (Losses)		10,547,333
Increase in Net Position		10,947,042
Net Position, Beginning of Year		168,186,150
Net Position, End of Year	$	179,133,192

(Concluded)

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

CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS (LOSSES), AND OTHER SUPPORT				
Fundraising Income	$ 399,845	$ 703,623	$ -	$ 1,103,468
Principle Contributions to Named Endowments	-	-	924,561	924,561
Management Fees	293,596	-	-	293,596
State Income	195,098	-	-	195,098
Change in the Value of Trusts	-	87,655	-	87,655
Unrealized Gain on Investments	(265)	597,365	-	597,100
Realized Gain (Loss) on Investments	437,157	762,145	-	1,199,302
Interest and Dividend Income	67,116	320,667	-	387,783
Event Income	-	69,039	-	69,039
Miscellaneous Income	4,372	-	-	4,372
Total Revenues, Gains (Losses), and Other Support	1,396,919	2,540,494	924,561	4,861,974
Transfer Between Net Assets	(30,233)	(2,343,363)	2,373,596	-
Net Assets Released From Restrictions	1,670,427	(1,670,427)	-	-
Total Support and Reclassifications	3,037,113	(1,473,296)	3,298,157	4,861,974
EXPENSES				
Program Services	1,681,823	-	-	1,681,823
General and Management	445,400	-	-	445,400
Fundraising	238,465	-	-	238,465
Total Expenses	2,365,688	-	-	2,365,688
Increase (Decrease) IN NET ASSETS	671,425	(1,473,296)	3,298,157	2,496,286
NET ASSETS, BEGINNING OF YEAR	1,765,538	4,803,747	11,024,187	17,593,472
NET ASSETS, END OF YEAR	$ 2,436,963	$ 3,330,451	$ 14,322,344	$ 20,089,758

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

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

PERU STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended December 31, 2012

PUBLIC SUPPORT AND REVENUE	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	$ 202,143	$ 730,311	$ 92,303	$ 1,024,757
Special Events	3,700	55,245	-	58,945
Interest and Dividends	298,658	-	12,650	311,308
Realized Gain on Sale of Investments	731,795	-	-	731,795
Unrealized Gain on Investments	251,797	-	41,815	293,612
Change in Value of Annuities	2,680	-	-	2,680
Miscellaneous Income	477	9,900	-	10,377
TOTAL PUBLIC SUPPORT AND REVENUE	1,491,250	795,456	146,768	2,433,474
EXPENSES				
Program Expenses	525,974	-	-	525,974
Management Expenses	238,542	-	-	238,542
Fundraising Expenses	302,332	-	-	302,332
TOTAL EXPENSES	1,066,848	-	-	1,066,848
Net Assets Released from Restrictions	432,495	(422,326)	(10,169)	-
INCREASE IN NET ASSETS	856,897	373,130	136,599	1,366,626
NET ASSETS, Beginning of Year	3,132,724	1,579,447	5,500,921	10,213,092
NET ASSETS, End of Year	$ 3,989,621	$ 1,952,577	$ 5,637,520	$ 11,579,718

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Gift/Contributions Income	$ 549,356	$ 2,275,403	$ 1,120,730	$ 3,945,489
Interest and Dividends	53,283	206,933	10,470	270,686
Net Gain (Loss) on Investments	311,555	1,569,174	145,009	2,025,738
Other Non Gift Income	13,662	176,459	3,505	193,626
Total Revenue and Other Support	927,856	4,227,969	1,279,714	6,435,539
Assets Released from Restrictions/Transfers	3,060,087	(3,098,170)	38,083	-
EXPENSES:				
General and Administrative	213,271	-	-	213,271
Fundraising	346,857	-	-	346,857
Program Expenses	3,188,154	-	-	3,188,154
Total Expenses Before Amortization	3,748,282	-	-	3,748,282
Amortization of Annuity Contracts	11,709	-	68,616	80,325
Total Expenses	3,759,991	-	68,616	3,828,607
Administrative Support Fee	93,641	(93,641)	-	-
NET INCREASE (DECREASE) IN NET ASSETS	321,593	1,036,158	1,249,181	2,606,932
NET ASSETS, BEGINNING OF YEAR	2,082,908	2,455,852	11,732,797	16,271,557
NET ASSETS, END OF YEAR	$ 2,404,501	$ 3,492,010	$ 12,981,978	$ 18,878,489

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, 2013

Cash Flows From Operating Activities	
Tuition and Fees	$ 25,676,552
Grants and Contracts	16,562,410
Payments to Suppliers	(25,915,043)
Payments for Utilities	(3,899,236)
Payments to Employees	(61,442,286)
Loans Issued to Students	145,221
Collections of Loans to Students	(1,617)
Sales and Services of Auxiliary Enterprises	16,875,529
Other Payments	(5,532,050)
Net Cash Used in Operating Activities	(37,530,520)
Cash Flows From Non-capital Financing Activities	
State Appropriations	46,475,619
Grants and Contracts	100,400
Direct Lending Receipts	32,546,121
Direct Lending Payments	(32,546,121)
Other Receipts (Payments)	435,982
Net Cash Provided by Non-capital Financing Activities	47,012,001
Cash Flows From Capital and Related Financing Activities	
Proceeds from Capital Debt	7,735,000
Capital Contributions	1,793,136
Purchase of Capital Assets	(15,192,386)
Disposal of Capital Assets	(14,396)
Principal Paid on Capital Debt	(11,206,046)
Interest Paid on Capital Debt	(1,448,815)
Capital Facilities Fees	2,090,829
Other	207,771
Capital Appropriations	6,669,239
Net Cash Used by Capital and Related Financing Activities	(9,365,668)
Cash Flows From Investing Activities	
Investment Income	1,199,869
Net Cash Provided by Investing Activities	1,199,869

(Continued)

NEBRASKA STATE COLLEGE SYSTEM - PRIMARY GOVERNMENT
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2013

Increase (Decrease) in Cash and Cash Equivalents		1,315,682
Cash and Cash Equivalents, Beginning of Year		64,206,274
Cash and Cash Equivalents, End of Year	$	65,521,956
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents	$	26,515,708
Restricted Cash and Cash Equivalents - Current		14,897,475
Restricted Cash and Cash Equivalents - Non-current		24,108,773
Total Cash and Cash Equivalents	$	65,521,956
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating Loss	$	(46,177,466)
Depreciation Expense		6,965,679
Changes in Operating Assets and Liabilities		
Receivables, Net		(428,524)
Inventories		(26,887)
Accounts Payable and Accrued Liabilities		1,709,044
Accrued Compensated Absences		283,071
Other Assets and Liabilities		144,563
Net Cash Used in Operating Activities	$	(37,530,520)
Supplemental Cash Flows Information		
Accounts Payable Incurred for Capital Asset Purchases	$	2,321,668

(Concluded)

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

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

CHADRON STATE FOUNDATION
(A COMPONENT UNIT OF THE NEBRASKA STATE COLLEGE SYSTEM)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$	2,496,286
Adjustments to Reconcile Increase (Decrease) in Net Assets		
To Net Cash Provided (Used) by Operating Activities		
Depreciation		10,662
Unrealized Loss (Gain) on Investments		(597,100)
Realized Loss (Gain) on Investments		(1,185,269)
Change in the Value of Trusts		(87,655)
Change in Estate Bequests		(294,424)
Change in Beneficial Interest in Annuity		6,471
Proceeds from Contributions Restricted for Investment in Named Endowments		(924,561)
(Increase) Decrease In:		
Contributions Receivable		314,398
Increase (Decrease) In:		
Accounts Payable		6,624
Wages Payable		(1,603)
Scholarships Payable		107,882
Deferred Revenue		(6,471)
Due to Other Agencies		(51,205)
Net Cash Provided (Used) by Operating Activities		(205,965)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Cash Surrender Value of Life Insurance		23,220
Proceeds From Sale of Investments		933,061
Purchase of Investments		(3,898,301)
Proceeds from Q-Tip Trust		2,389,267
Purchase of Certificates of Deposit		248,614
Net Cash Used by Investing Activities		(304,139)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Investment in Named Endowments		924,561
Net Cash Provided by Financing Activities		924,561
Net Increase (Decrease) in Cash and Cash Equivalents		414,457
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		1,010,330
CASH AND CASH EQUIVALENTS, END OF YEAR	$	1,424,787
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash and Cash Equivalents - Unrestricted	$	1,303,524
Cash and Cash Equivalents - Restricted		121,263
Total Cash and Cash Equivalents	$	1,424,787

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase in Net Assets	$	1,366,626
Adjustments to Reconcile Net Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation		8,243
Unrealized Loss/(Gain) on Investments		(293,612)
Realized Gain on Investments		(709,963)
Gain on Sale of Assets		(21,832)
(Increase) Decrease in:		
Unconditional Promises to Give		(2,880)
Student Loans Receivable		1,424
Interest Receivable		595
Prepaid Expenses		(89,054)
Increase (Decrease) in:		
Accounts Payable		(12,482)
Accrued Compensation		(15,655)
Accrued Expenses		(4,988)
Refundable Deposits		(18,008)
Net Cash Provided by Operating Activities		208,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Land		26,000
Proceeds from Sale of Investments		758,800
Purchases of Investments		(238,047)
Net Gift Annuity (Payments)/Contributions		(34,857)
Payments Received on Notes Receivable		19,648
Net Cash Provided /(Used) by Investing Activities		531,544
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Current Debt		210,000
Repayment of Long-term Debt		(4,288)
Net Cash Provided by Financing Activities		205,712
NET INCREASE (DECREASE) IN CASH		945,670
CASH, BEGINNING OF YEAR		314,342
CASH, END OF YEAR	$	1,260,012
SUPPLEMENTAL DISCLOSURES		
Noncash Investing and Financing Activities:		
Interest Paid	$	1,575

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$	2,606,932
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation		8,860
Amortization of Annuity Obligations		80,325
Non Cash Contributions		(63,975)
Net Loss (Gain) on Investments & (Reinvested Income)		(2,025,738)
(Increase) Decrease in Operating Non-Cash Assets:		
Accrued Interest Receivable/Prepaids & Misc. Receivables		657
Unconditional Promises to Give		171,741
Inventory		966
Cash Value Life Insurance		(5,486)
Increase (Decrease) in Operating Non-Cash Liabilities:		
Accounts Payable/Faculty Grants Payable		(116,644)
Net Cash Provided (Used) by Operating Activities		657,638
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property		(17,370)
Net Sales (Purchases) of Investments		(511,841)
Net Cash (Used) by Investing Activities		(529,211)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Annuity Contracts		31,748
Payments on Annuity Contracts		(117,579)
Net Cash Provided (Used) by Financing Activities		(85,831)
NET CHANGE IN CASH & CASH EQUIVALENTS		42,596
Cash and Cash Equivalents, Beginning of Year		512,736
CASH AND CASH EQUIVALENTS, END OF YEAR	$	555,332

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

Organization

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

Reporting Entity

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

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

Blended Component Unit

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Condensed Statement of Net Position

	NSCS	Facilities Corporation	Total
Current Assets	$ 42,878,768	$ 2,054,831	$ 44,933,599
Noncurrent Assets			
Capital Assets, Net	167,059,343	-	167,059,343
Other Noncurrent Assets	26,562,184	256,479	26,818,663
Total Assets	236,500,295	2,311,310	238,811,605
Current Liabilities	11,401,135	1,949,245	13,350,380
Noncurrent Liabilities	32,373,592	13,954,441	46,328,033
Total Liabilities	43,774,727	15,903,686	59,678,413
Net Position			
Net Investment in Capital Assets	137,351,353	(15,871,783)	121,479,570
Restricted	32,622,520	2,279,407	34,901,927
Unrestricted	22,751,695	-	22,751,695
Total Net Position	$ 192,725,568	$ (13,592,376)	$ 179,133,192

[Continued on Next Page]

1. Summary of Significant Accounting Policies (Continued)

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

	NSCS	Facilities Corporation	Total
Operating Revenues			
Tuition and Fees, Net	$ 25,841,195	$ -	$ 25,841,195
Federal and State Grants and Contracts	14,410,832	-	14,410,832
Private Grants and Contracts	2,151,578	-	2,151,578
Auxiliary Enterprises, Net	16,989,768	-	16,989,768
Other Operating Revenues	295,536	-	295,536
Total Operating Revenues	59,688,909	-	59,688,909
Operating Expenses			
Depreciation	6,965,679	-	6,965,679
Other Operating Expenses	98,900,696	-	98,900,696
Total Operating Expenses	105,866,375	-	105,866,375
Operating Loss	(46,177,466)	-	(46,177,466)
Non-operating Revenues (Expenses)			
State Appropriations	46,144,042	-	46,144,042
Investment Income	1,200,781	111	1,200,892
Interest on Capital Asset-Related Debt	(522,845)	(666,500)	(1,189,345)
Gain (Loss) on Disposal of Asset	(14,396)	-	(14,396)
Other Non-operating (Expenses)	489,105	(53,123)	435,982
Net Non-operating Revenues	47,296,687	(719,512)	46,577,175
Income (Loss) before Other Revenues, Expenses, Or Gains (Losses)	1,119,221	(719,512)	399,709
Other Revenues, Expenses, or Gains (Losses)			
Capital Appropriations and Grants	5,544,239	1,125,000	6,669,239
Capital Contributions	1,793,136	-	1,793,136
Operating Transfers In (Out)	(1,213,409)	1,213,409	-
Capital Facilities Fee	2,084,958	-	2,084,958
Net Other Revenues, Expenses, Or Gains (Losses)	8,208,924	2,338,409	10,547,333
Increase in Net Position	9,328,145	1,618,897	10,947,042
Net Position, Beginning of Year	183,397,423	(15,211,273)	168,186,150
Net Position, End of Year	$ 192,725,568	$ (13,592,376)	$ 179,133,192

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Condensed Statement of Cash Flows

	NSCS	Facilities Corporation	Total
Cash Flows from Operating Activities	$ (37,530,520)	$ -	$ (37,530,520)
Cash Flows from Non-capital Financing Activities	47,012,001	-	47,012,001
Cash Flows from Capital and Related Financing Activities	(9,395,595)	29,927	(9,365,668)
Cash Flows from Investing Activities	1,199,760	109	1,199,869
Increase (Decrease) in Cash and Cash Equivalents	1,285,646	30,036	1,315,682
Cash and Cash Equivalents, Beginning of Year	62,181,496	2,024,778	64,206,274
Cash and Cash Equivalents, End of Year	$ 63,467,142	$ 2,054,814	$ 65,521,956

Discretely Presented Component Units

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

The Foundations report under Financial Accounting Standards Board (FASB) standards, including FASB Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements of Not-for-Profit Entities.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations' audited financial information as it is presented (see Note 12).

1. <u>Summary of Significant Accounting Policies</u> (Continued)

During the year ended June 30, 2013, Chadron State, Wayne State, and Peru State Foundations distributed $1,149,711, $2,877,789, and $1,086,497, respectively to their Colleges for both restricted and unrestricted purposes. These distributions also included scholarships to students. Separate audit reports were issued by each foundation and can be obtained from their respective administrative offices or by contacting the Nebraska State College System at 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 Position
    - Statement of Revenues, Expenses, and Changes in Net Position
    - Statement of Cash Flows
- Notes to Financial Statements

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

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

1. Summary of Significant Accounting Policies (Continued)

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

Use of Estimates

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

Net Position Reclassification

Net position of the NSCS includes a reclassification for the Corporation's unrestricted net position deficit of $15,871,783. Although the Corporation issues debt to finance construction and renovation projects, the assets which are constructed and/or renovated using Corporation debt are owned by the NSCS. In order to properly present the NSCS's net investment in capital assets, the unrestricted net position of the Corporation is reclassified when blended with the NSCS.

Cash and Cash Equivalents

The NSCS cash and cash equivalents are stated at fair value. Cash and cash equivalents held by the Nebraska State Treasurer are deposited on a pooled basis in a State fund. Income earned by the pool is allocated to the NSCS based upon average daily balances. From time to time, the Nebraska State Investment Officer, as allowed by statute, participates in securities lending transactions, which makes use of amounts on deposit from the NSCS. Securities lending transactions cannot be specifically identified to amounts on deposit from the NSCS and, as such, are not included in the financial statements for the year ended June 30, 2013.

The NSCS considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013, 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.

1. Summary of Significant Accounting Policies (Continued)

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 $930,999 at June 30, 2013, and is identified by College as follows:

CSC	$	468,735
PSC	$	268,351
WSC	$	181,101
NSCS Office	$	12,812

Unamortized Bond Issue Costs

The NSCS's bond issue costs incurred on the revenue bond issues are being amortized over the life of the bonds using the straight-line method. Total amortization for the year ended June 30, 2013, was $86,188, and is identified by College as follows:

CSC	$	9,813
PSC	$	23,235
WSC	$	16,717
NSCS Office	$	36,423

Inventories

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

Loans to Students

The NSCS makes loans to students under the Federal Perkins Loan Program; also, small temporary loans are provided to students from the Foundations. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was $166,991 at June 30, 2013, and is identified by College as follows:

1. Summary of Significant Accounting Policies (Continued)

CSC	$	60,600
WSC	$	106,391

Capital Assets

The NSCS's capital assets are recorded at cost as of the date of acquisition, or fair value at the date of donation if acquired by gift. Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Also, all land, buildings, infrastructure, and construction in progress are capitalized. Art objects, specimens, artifacts and collections, including library materials, are expensed so long as the items meet three conditions in accordance with GASB 34. For assets purchased after July 1, 2010, depreciation/amortization is computed using the straight-line method over the estimated useful life of each asset beginning with the month of purchase. Prior to July 1, 2010, depreciation/amortization was computed using the straight-line method over the estimated useful life of each asset, with one-half of one year's depreciation/amortization taken in the first and last years of the asset life. The following estimated useful lives are being used by the NSCS:

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

Compensated Absences

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

Unearned Revenue

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

1. Summary of Significant Accounting Policies (Concluded)

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.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances and institutional waiver allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Such allowances are the difference between the stated charge for goods and services provided by the NSCS, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs, are recorded as operating revenues in the NSCS's financial statements. To the extent revenues from such programs are used to satisfy tuition and fees and other student charges, the NSCS has recorded a scholarship allowance.

The NSCS has elected to adopt, for calculation of scholarship allowances, an allocation methodology provided in the National Association of College and University Business Officers (NACUBO) industry guidance (student institutional waivers, which are also netted similar to scholarship allowances continue to be based on actual contra-account financial activity). The scholarship allowances and institutional waivers on tuition and fees and auxiliary enterprises for the year ended June 30, 2013, as calculated under the NACUBO method, were $11,258,559 and $3,482,243, respectively and are identified by College as follows:

	Tuition and Fees	Auxiliary Enterprises
CSC	$ 4,398,066	$ 832,227
PSC	$ 2,316,641	$ 710,757
WSC	$ 4,543,852	$ 1,939,259

2. Deposits, Investments, and Investment Return

Deposits

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

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

At June 30, 2013, cash and cash equivalents of $52,732,856 on the statement of net position represents the NSCS's equity position in the State Treasurer's Short-Term Investment Pool (STIP). The bank balance of these STIP funds was $52,914,153. Additional information on the deposit and investment risk associated with the State Treasurer's Investment Pool is included in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). An electronic version of this report is available by accessing the Nebraska Auditor of Public Accounts website (www.auditors.nebraska.gov) and clicking "Reports Online."

Cash on hand at June 30, 2013 was $5,350. The carrying amount of the NSCS's deposits not with the State Treasurer was $4,045,201 and the bank balance was $4,036,898. The bank balance at June 30, 2013, was entirely covered by FDIC and collateral held either in the NSCS's name or by the pledging institution's agent in other than the NSCS's name. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies and instrumentalities of the State of Nebraska; or a surety bond having an aggregate value at least equal to the

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

amount of the deposits. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements. The NSCS has no policy regarding custodial credit risk for deposits.

Investments

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

At June 30, 2013, the NSCS's investment balances, which had weighted average maturities of 39-51 days, had fair values as follows:

Investment Type	
Other Investments	
U.S. Treasury Fund	$ 10,485,438
Government Money Market Fund	2,054,814
	$ 12,540,252

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:

		Quality Ratings		
	Fair Value	AAA	AA	Unrated
U.S. Treasury Fund	$ 10,485,438	$ 10,485,438	$ -	$ -
Government Money Market Fund	2,054,814	2,054,814	-	-
	$ 12,540,252	$ 12,540,252	$ -	$ -

Concentration of Credit Risk. The NSCS places no limit on the amount that may be invested in any one issuer. Of NSCS's investments, 84% are in U.S. Treasury Funds and 16% are in Government Money Market Funds.

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

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

Summary of Fair Values

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

Fair Value	
Cash	$ 5,350
Deposits:	
Bank Deposits	4,045,201
Short Term Investment Pool	52,732,856
Investments	8,738,549
Total as of June 30, 2013	$ 65,521,956
Included in the Statement of Net Position	
Cash and Cash Equivalents	$ 26,515,708
Restricted Cash and Cash Equivalents	39,006,248
Total	$ 65,521,956

3. Capital Assets

The NSCS capital assets activity for the year ended June 30, 2013, was:

Assets

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,033,743	$ 2,500	$ -	$ -	$ 1,036,243
Building and Improvements	169,716,080	-	(43,109)	23,713,482	193,386,453
Infrastructure	26,666,696	-	-	-	26,666,696
Furniture, Fixtures, and Equipment	15,859,127	487,637	(256,975)	716,915	16,806,704
Construction in Progress	20,806,100	14,764,291	(135,544)	(24,430,397)	11,004,450
Total Assets	234,081,746	15,254,428	(435,628)	-	248,900,546

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Capital Assets (Concluded)

Accumulated Depreciation

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Building and Improvements	(58,609,556)	(4,347,721)	38,887	-	(62,918,390)
Infrastructure	(9,942,203)	(1,089,018)	-	-	(11,031,221)
Furniture, Fixtures, and Equipment	(6,594,987)	(1,528,939)	232,334	-	(7,891,592)
Total Accumulated Depreciation	(75,146,746)	(6,965,678)	271,221	-	(81,841,203)
Net Capital Assets	$ 158,935,000	$ 8,288,750	$ (164,407)	$ -	$ 167,059,343

Net Assets by College

	CSC	PSC	WSC	NSCS Office	Balance
Land	$ 49,395	$ 10,201	$ 976,647	$ -	$ 1,036,243
Building and Improvements	25,971,608	35,901,613	68,594,842	-	130,468,063
Infrastructure	4,130,731	3,384,993	8,119,751	-	15,635,475
Furniture, Fixtures, and Equipment	1,596,253	311,840	1,110,071	5,896,948	8,915,112
Construction in Progress	4,611,025	3,728,224	2,665,201	-	11,004,450
Net Capital Assets	$ 36,359,012	$ 43,336,871	$ 81,466,512	$ 5,896,948	$ 167,059,343

4. Long-Term Liabilities

The following is a summary of long-term obligation transactions for the NSCS for the year ended June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Loan Obligations Payable	$ 158,189	$ -	$ (20,334)	$ 137,855	$ 21,046
Revenue and Refunding Bonds	31,955,000	7,735,000	(9,610,000)	30,080,000	1,205,000
Facilities Corporation Bonds	17,015,000	-	(1,575,000)	15,440,000	1,635,000
Total Long-Term Liabilities	49,128,189	7,735,000	(11,205,334)	45,657,855	2,861,046

4. <u>Long-Term Liabilities</u> (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Accrued Compensated Absences	3,522,330	283,073	-	3,805,403	423,620
Unamortized Bond Premium	170,663	-	(21,222)	149,441	-
Other Liabilities	102,835	-	(102,835)	-	-
Total Other Long-Term Liabilities	3,795,828	283,073	(124,057)	3,954,844	423,620
Total Long-Term Liabilities	$ 52,924,017	$ 8,018,073	$(11,329,391)	$ 49,612,699	$ 3,284,666

Termination Benefits

The NSCS has two programs for support staff in the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSME) bargaining unit and support staff excluded from the NAPE/AFSCME bargaining unit which must be accounted for under GASB Statement No. 47, *Accounting for Termination Benefits*, the Voluntary Retirement Settlement Program and the Early Retirement Incentive Program.

Under the voluntary retirement settlement program, employees who are 55 years of age or more on July 1, of the year in which he or she chooses to retire, and have ten or more years of consecutive service within the NSCS will be paid one-quarter of their final year base salary in 12 equal monthly installments following termination of employment. In addition, employees will be permitted to remain in the group medical and dental insurance plan offered retirees by Blue Cross/Blue Shield at the time of the employee's retirement. The NSCS will pay the employee's health/dental insurance (State and employee burden) costs for the 12-month period following termination of employment. If the retired employee reaches the age of 65 at any time during the 12 month period, at which time eligibility to participate in the Blue Cross/Blue Shield retiree plan ceases, the NSCS will pay an amount equivalent to the full cost of the 65 Gold Plus Medicare Supplemental Plan or the Retired BlueSenior Classic Plan offered by Nebraska State Education Association (NSEA) for the payout period remaining. Under the current bargaining agreement and Board Policy, this plan was only available to those employees who retired on June 30, 2012. Similar voluntary retirement settlement program were also offered to support staff in the NAPE/AFSCME bargaining unit who retired on July 1, 2009, or June 30, 2010.

Under the early retirement incentive program, employees who have completed at least ten years of continuous service within the NSCS and are 60 years of age or older will be paid premiums in the group medical and dental health insurance program offered retirees by Blue Cross Blue Shield at the time of the eligible employee's retirement. The payment of premium will continue until the retired employee becomes eligible for coverage under the Federal Medicare program, at which time the paid premiums shall cease.

4. Long-Term Liabilities (Continued)

At June 30, 2013, five employees at CSC, three employees at PSC, and four employees at WSC were participating in the NSCS's voluntary/early retirement programs. Liability amounts associated with these retirements are shown below. Liability amounts are reflected in the accrued compensated absences line item on the statement of net position, the combining schedule of net position, and the footnote amount above. All termination benefits are shown at present cost.

	Ending Balance	Current Portion
CSC	79,706	42,491
PSC	38,714	22,233
WSC	$ 59,644	$ 40,735
Total	$ 178,064	$ 105,459

Student Fees and Facilities Revenue and Refunding Bonds Series 2002

In August 2002, the NSCS Board of Trustees authorized the issuance of $14,315,000 of Student Fees and Facilities Revenue and Refunding Bonds Series 2002. The purpose of the issuance was to provide payment and redemption of outstanding Revenue Bonds and Revenue Bond Anticipation Notes, refinance existing long-term debt, and finance improvements to the Colleges' facilities. Under the bond resolution for Student Fees and Facilities Revenue and Refunding Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The amounts for PSC, WSC, and CSC's portion of the bond obligation were $3,605,000, $8,195,000, and $2,515,000, respectively, bearing interest at rates from 1.6% to 5.0%, with payments due from 2003 to 2027. Revenue Bonds, Series 2002 were called on July 2, 2012, using proceeds from the issuance of Revenue Bonds, Series 2012.

Student Fees and Facilities Revenue Bonds Series 2003

In November 2003, the NSCS Board of Trustees authorized the issuance of $6,910,000 of Student Fees and Facilities Revenue Bonds Series 2003. The purpose of the issuance was to finance improvements to the Colleges' facilities. Under the bond resolution for Student Fees and Facilities Revenue Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds 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 5.25%, with payments due from 2005 to 2028. Bonds maturing on or after July 1, 2014 are able to be redeemed, in part or in whole, on or after July 1, 2013.

4. Long-Term Liabilities (Continued)

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. Bonds maturing on or after July 1, 2016 are able to be redeemed, in part or in whole, on or after January 1, 2016.

Student Fees and Facilities Revenue Bonds Series 2011

In November 2010, the NSCS Board of Trustees authorized the issuance of $3,600,000 of Student Fee and Facilities Revenue Bond Series 2011. The purpose of the issuance was to finance improvements to Peru State's Morgan Hall. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal amount of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The $3,600,000 in bonds bear interest at rates from 0.75% to 5.05% with payments due from 2011 to 2031. Bonds maturing on or after July 1, 2017 are able to be redeemed, in part or in whole, on or after July 1, 2016.

Student Fees and Facilities Revenue Bonds Series 2012

In May 2012, the NSCS Board of Trustees authorized the issuance of $8,750,000 of Student Fee and Facilities Revenue Bonds Series 2012. The purpose of the issuance was to redeem in full the outstanding principal amount of the Student Fees and Facilities Revenue and Refunding Bonds Series 2002. See *Bond Redemption* below for more information concerning the refunding. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amounts of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The amounts for WSC and PSC's portion of the bond obligations were $6,045,000 and $2,705,000, respectively, bearing interest at rates from 0.3% to 3.2%, with payments due from 2012 to 2027. Bonds maturing on or after July 1, 2018 are able to be redeemed, in part or in whole, on or after July 1, 2017.

4. Long-Term Liabilities (Continued)

Student Fees and Facilities Revenue Bonds Series 2013

In January 2013, the NSCS Board of Trustees authorized the issuance of $7,735,000 of Student Fee and Facilities Revenue Bonds Series 2013. The purpose of the issuance was to finance the construction of Chadron State's Eagle Ridge housing and maintenance to several revenue bond building roofs. Under the bond resolution for Student Fees and Facilities Bonds, revenues and earnings derived from operations of all revenue facilities and special student fees are pledged for payment of the principal and interest amounts of the bonds. The bonds are not obligations of the State of Nebraska, and no tax funds shall be appropriated for payment of principal and interest. The $7,735,000 in bonds bear interest at rates from 0.6% to 3.0%, with payments due from 2014 to 2034. Bonds maturing on or after July 1, 2018 are able to be redeemed, in part or in whole, on or after January 3, 2018.

Bond Redemption

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

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

Nebraska State 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. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer. The bonds bear interest payable semiannually, at rates of 3.55% to 5.00% and are due in semiannual installments, which began January 15, 2007. Principal maturities began July 15, 2007, and continue until July 15, 2020. Bonds maturing on or after July 15, 2017, are callable at the option of the Nebraska State College Facilities Corporation beginning July 15, 2016.

4. Long-Term Liabilities (Continued)

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:

CSC Revenue Bonds

Year Ending June 30	Principal	Interest	Total
2014	$ 205,000	$ 386,170	$ 591,170
2015	215,000	378,674	593,674
2016	575,000	368,690	943,690
2017	585,000	356,784	941,784
2018	600,000	343,608	943,608
2019-2023	3,235,000	1,459,100	4,694,100
2024-2028	3,805,000	871,379	4,676,379
2029-2033	2,710,000	260,598	2,970,598
2034	500,000	7,500	507,500
Total	$ 12,430,000	$ 4,432,503	$ 16,862,503

PSC Loan Obligation Payable

Year Ending June 30	Principal	Interest	Total
2014	$ 21,046	$ 4,825	$ 25,871
2015	21,783	4,088	25,871
2016	22,545	3,326	25,871
2017	23,334	2,537	25,871
2018	24,151	1,720	25,871
2019	24,996	875	25,871
Total	$ 137,855	$ 17,371	$ 155,226

4. Long-Term Liabilities (Continued)

PSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2014	$ 295,000	$ 184,806	$ 479,806
2015	305,000	182,306	487,306
2016	305,000	178,961	483,961
2017	320,000	174,741	494,741
2018	315,000	169,646	484,646
2019-2023	1,695,000	734,214	2,429,214
2024-2028	1,965,000	439,542	2,404,542
2029-2032	970,000	101,000	1,071,000
Total	$ 6,170,000	$ 2,165,216	$ 8,335,216

WSC Revenue and Refunding Bonds

Year Ending June 30	Principal	Interest	Total
2014	$ 705,000	$ 283,964	$ 988,964
2015	720,000	274,809	994,809
2016	735,000	264,062	999,062
2017	745,000	251,541	996,541
2018	745,000	237,198	982,198
2019-2023	3,315,000	959,146	4,274,146
2024-2028	3,560,000	495,034	4,055,034
2029-2031	955,000	58,300	1,013,300
Total	$ 11,480,000	$ 2,824,054	$ 14,304,054

Facilities Corporation Bonds

Year Ending June 30	Principal	Interest	Total
2014	$ 1,635,000	$ 644,407	$ 2,279,407
2015	1,720,000	560,532	2,280,532
2016	1,805,000	479,175	2,284,175
2017	1,880,000	393,818	2,273,818
2018	1,975,000	307,318	2,282,318
2019-2021	6,425,000	411,734	6,836,734
Total	$ 15,440,000	$ 2,796,984	$ 18,236,984

4. Long-Term Liabilities (Concluded)

NSCS Loan Obligation and Bond Summary

Year Ending June 30	Principal	Interest	Total
2014	$ 2,861,046	$ 1,504,172	$ 4,365,218
2015	2,981,783	1,400,409	4,382,192
2016	3,442,545	1,294,214	4,736,759
2017	3,553,334	1,179,421	4,732,755
2018	3,659,151	1,059,490	4,718,641
2019-2023	14,694,996	3,565,069	18,260,065
2024-2028	9,330,000	1,805,955	11,135,955
2029-2033	4,635,000	419,898	5,054,898
2034	500,000	7,500	507,500
Total	$ 45,657,855	$ 12,236,128	$ 57,893,983

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, 2013, the NSCS was in compliance with these requirements.

Total interest expense during the fiscal year ended June 30, 2013, was $1,210,567. No interest expense was capitalized during the fiscal year.

5. Capital and Operating Leases

The NSCS did not have any capital leases as of June 30, 2013.

Noncancellable operating leases related primarily to equipment expire in various fiscal years through 2018. 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, 2013, were:

2014	$ 61,681
2015	56,958
2016	56,958
2017	56,958
2018	29,112
Total	$ 261,667

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Pension Plan

The NSCS has a defined contribution retirement plan currently in effect, which was established by the Board of Trustees and may be amended by the Board in accordance with Neb. Rev. Stat. § 85-320 (Reissue 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 2013, 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, 2013, by plan members and the NSCS aggregated were $2,447,020 and $3,263,694, respectively.

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

The NSCS also sponsors a supplemental retirement annuity (SRA) plan, Roth individual retirement account (IRA), and 457 deferred compensation supplemental plan. Plan members contributed $950,050 to the SRA, $2,000 to the Roth IRA, and $43,796 to the 457 plan in 2013. 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.

7. Risk Management (Concluded)

C. Employee benefits liability, with a limit of $1,000,000 per each employee and $1,000,000 annual aggregate.
D. Director and officer liability, with a limit of $2,000,000 and a self-insured retention of $100,000.
E. Real and personal property through the Midwest Higher Education Compact's (MHEC) property program on a blanket basis for losses up to $500,000,000, with the program funding a self insurance pool of $1,000,000 per loss occurrence and a deductible of $25,000 for the NSCS. Newly acquired properties are covered up to $100,000,000 for 90 days from the date the insured takes ownership of the property. The perils of flood, earthquake, and acts of terrorism have various coverages and sublimits. Details of these coverages are available from the NSCS.

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 $18,912,727 as of June 30, 2013. These projects will be funded through State monies, Foundation gifts, and capital improvement fees. Construction commitments are identified by College as follows:

CSC	$	11,395,962
PSC	$	5,560,620
WSC	$	1,956,145

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 Position

Restricted net position reports resources that are owned by the NSCS, but their use or purpose is restricted. Restricted net position reported on the statement of net position is further classified into the following:

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

Debt Service represents the remaining plant, capital improvement, Facilities Corporation, and auxiliary balances not identified as being net investment in capital assets.

Other includes $347,842 in funds set aside by the Board of Trustees for student scholarships and $1,209,615 in unexpended special project authorizations. The remainder of the *Other* classification consists primarily of a variety of scholarship, student activity, grant, contract, contribution, and gift funds.

10. Joint Venture

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

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

11. Series 2014 Bond Issuance

During the 2013 legislative session, the Legislature passed LB 198, which authorized the appropriation of State funds to be used for the payment of new facility bonds. Bond proceeds will be used for the construction of laboratory, classroom, office, and herbarium space for the Rangeland Center at CSC and the renovation of the U.S. Conn Library at WSC. The Legislature expressed its intent to appropriate each fiscal year from the general fund an amount not less than $2,216,000 to be used for the construction of the projects which the NSCS intends to finance via Facilities Corporation.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11. Series 2014 Bond Issuance (Concluded)

At the September 6, 2013 meeting, the Board approved the issuance of Facilities Corporation bonds to finance these projects. In November 2013, the NSCS issued $13,460,000 in Series 2014 bonds. Bonds will bear interest rates from 0.40% to 2.44% with payments due from 2015 to 2021. Bond settlement is expected to occur January 3, 2014.

12. Component Unit Disclosures – Foundations

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

Foundation	Year Ended	Pages
Chadron State	June 30, 2013	51 – 66
Peru State	December 31, 2012	67 – 77
Wayne State	June 30, 2013	78 – 91

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Greatest Need - Represents unrestricted gifts and pledges of $5,000 or more that will be allocated per recommendation of the Development Committee and approved by the Board of Directors. Such recommendations will be based on the initiatives and priorities of the Foundation and, when appropriate, campaign leadership committee. Such recommendations must be approved by the Board of Directors each quarter or per special meetings. Upon approval by the Board of Directors, these gifts and pledges will be accounted for in the appropriate board designated fund. The Board of Directors has designated $490,000 of this fund balance to Capital Campaign Initiatives.

Cash and Cash Equivalents - For the purposes of the statements 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 asking 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.

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, 2013, was $65,683.

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

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTE 2 - CASH DEPOSITS

The Foundation maintains several bank accounts. The following table is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured. FDIC regulations state time and savings accounts are insured up to $250,000 at June 30, 2013. The total bank balance represents the amount held by the bank. The carrying balance represents the reconciled general ledger balance at June 30, 2013.

Category 1 - Insured by FDIC

Category 2 - Uninsured by FDIC, uncollateralized

Category 3 - Collateralized by United States Government Securities

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 2 - CASH DEPOSITS (CONTINUED)

June 30, 2013

Type of Deposits	Total Bank Balance	Total Carrying Balance	Custody Credit Risk Category 1	Custody Credit Risk Category 2	Custody Credit Risk Category 3
Demand Deposits:					
Bank of the West					
Operating Account	$ 604,606	$ 604,706	$ 604,606	$ -	$ -
North Platte Bank					
Operating Account	676,509	583,668	285,000	-	391,509
Credit Card Account	92,035	92,035	92,035	-	-
First National Bank – Chadron					
Custodial Account	158,195	121,263	158,195	-	-
Edward Jones					
Money Market	23,115	23,115	-	23,115	-
Certificates of Deposit					
Bank of the West	35,000	35,021	35,000	-	-
First State Bank	125,000	125,090	125,000	-	-
Chadron Fed Cr Union	250,773	250,773	250,000	773	-
Western Heritage	254,817	254,817	250,000	4,817	-
Security First Bank	250,000	250,730	250,000	-	-
Platte Valley Bank	200,000	200,214	200,000	-	-
	$2,670,050	$2,541,432	$ 2,249,836	$ 28,705	$ 391,509

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 3 - CONTRIBUTIONS

Contributions receivable at June 30, 2013 was as follows:

		2013
Receivable in Less Than One Year	$	362,594
Receivable in One to Five Years		461,232
Receivable in Six to Ten Years		1,000
Total Contributions Receivable	$	824,826
Less Unamortized Discounts to Net Present Value		(20,624)
Less Allowance for Uncollectable Accounts		(88,090)
Net Contributions Receivable	$	716,112

The discount rates used on long-term promises to give was 2.48% for the year ended June 30, 2013.

NOTE 4 - INVESTMENTS

Investments are stated at fair value and are shown below as of June 30, 2013:

	Cost 06/30/2013	Market Value 06/30/2013	Unrealized Appreciation
LLC Groups:			
Westwood Diversified Core Equity LLC	$ 2,325,267	$ 3,020,287	$ 695,020
Westwood Focused Core Equity LLC	1,528,251	1,624,983	96,732
Westwood Diversified Sm/Mid Cap Equity LLC	865,347	1,198,761	333,414
Westwood Focused Small Cap Equity LLC	664,190	749,970	85,780
Westwood International Equity LLC	1,211,535	1,413,216	201,681
Westwood Cash Reserves LLC	740,928	741,025	97
Westwood Core Income LLC	2,191,946	2,194,218	2,272
Westwood Total Return LLC	2,675,595	2,816,896	141,301
Westwood Tactical Opportunity	648,548	691,930	43,382
Westwood Common Trust Equity	1,042,459	1,004,517	(37,942)
Westwood Common Trust Fixed	837,683	822,925	(14,758)
Westwood Common Trust Specialty	490,147	480,077	(10,070)
Westwood Cash and Money Market	174,791	174,791	-
Total Investments	$ 15,396,687	$ 16,933,596	$ 1,536,909

CHADRON STATE FOUNDATION (Continued)

NOTE 4 – INVESTMENTS (CONTINUED)

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

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, 2013:

		Fair Value Measurements Using		
June 30, 2013	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:				
Westwood Diversified Core Equity LLC	$ 3,020,287	$ -	$ 3,020,287	$ -
Westwood Focused Core Equity LLC	1,624,983	-	1,624,983	-
Westwood Diversified Sm/Mid Cap Equity LLC	1,198,761	-	1,198,761	-
Westwood Focused Small Cap Equity LLC	749,970	-	749,970	-
Westwood International Equity LLC	1,413,216	-	1,413,216	-
Westwood Cash Reserves LLC	741,025	-	741,025	-
Westwood Core Income LLC	2,194,218	-	2,194,218	-
Westwood Total Return LLC	2,816,896	-	2,816,896	-
Westwood Tactical Opportunity	691,930	-	691,930	-
Westwood Common Trust Equity	1,004,517	-	1,004,517	-
Westwood Common Trust Fixed	822,925	-	822,925	-
Westwood Common Trust Specialty	480,077	-	480,077	-
Westwood Money Market	174,791	-	174,791	-
Total Investments	$ 16,933,596	$ -	$ 16,933,596	$ -

The following schedule summarizes the investment return in the Statement of Activities for the year ended June 30, 2013:

	2013
Interest and dividend income	$ 357,632
Net realized gains	1,185,269
Net unrealized gains (losses)	597,100
Management fees	(109,705)
Total	$ 2,030,296

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 5 - OTHER ASSETS

The Foundation is the beneficiary of various trusts and estates created by donors, the assets of which are not in the possession of the Foundation. The carrying amounts (which are at fair value) of beneficial interests in trusts and estates are based on values provided by an external investment manager, quoted market values, or actuarial valuations. Net realized and unrealized gains and losses related to beneficial interests are reported as changes in net assets based on donor stipulations. The Chicoine Trust was paid to the Foundation in the current year upon death of the donor. The Hale, Weedon and Gates Estate Bequests were finalized in the current fiscal year. The Foundation was notified of one additional estate bequest (Gochnauer) in 2013 that is expected to make the final distribution in the next fiscal year. These bequests were recorded at their estimated fair value as of June 30, 2013. The fair value of the beneficial interests at June 30, 2013 was as follows:

2013	Fair Value	Level 1	Level 2	Level 3
Beneficial Interest in Gochnaur Estate	$ 432,961	$ 343,048	$ -	$ 89,913
Cash Surrender Value of Life Insurance	35,148	-	-	35,148
Beneficial Interest in Annuity	61,633	-	-	61,633
Total Other Assets	$ 529,742	$ 343,048	$ -	$ 186,694

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

2013	Beneficial Interest in Weedon, Gates, and Gochnauer Estates	Beneficial Interest in Hale Estate Bequests	Cash Surrender Value of Life Insurance	Beneficial Interest in Annuity
Beginning balance, July 1, 2012	$ 121,229	$ 17,308	$ 58,368	$ 68,104
Purchases, issuance, settlements	311,732	(17,308)	(24,137)	(9,586)
Total gains (realized, unrealized)	-	-	917	3,115
Ending balance, June 30, 2013	$ 432,961	$ -	$ 35,148	$ 61,633

CHADRON STATE FOUNDATION (Continued)

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 consisted of the following:

	2013
Land	$ 38,500
Office Equipment	95,098
	$ 133,598
Less Accumulated Depreciation	(95,098)
Property & Equipment, Net of Accumulated Depreciation	$ 38,500

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, 2013, the restricted cash balance was $121,263. The amount held in endowed investments as of June 30, 2013, was $453,591 and the total due to other agencies balance was $155,380.

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS

The Foundation follows FASB ASC 958-205-50-1B, which provides guidance on the net asset classification of donor- restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Investments - Board-designated Endowment - As of June 30, 2013, the Board of Directors had designated $529,200 of unrestricted net assets as a general quasi endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Gifts assigned to a quasi endowment shall be divided into two separate fund balances. One shall be called the "Initial Fund Balance" and one shall be called the "Quasi Endowment Fund Balance." The balance for either the Initial Fund Balance or Quasi Endowment Fund Balance

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

shall be determined as of June 30th of each fiscal year. The annual payout from each of these fund balances shall be calculated individually as hereinafter stated:

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

Quasi Endowment Fund Balance - The annual payout from this segment of the endowment shall be set by action of the Finance Committee and ratified or approved by the Foundation Board consistent with the investment policy and long term goal of portfolio growth and perpetual support of CSC. In accordance with accounting principles generally accepted in the United States of America, the Foundation Board has the discretion to allow payouts from the corpus and principal of a Quasi Endowment Fund Balance. However, the Board has chosen by policy to treat a Quasi Endowment Fund Balance as a Named Endowment and pay out accordingly. See Donor Designated Endowments - *Spending Policy*.

Investments - Donor Designated Endowments - The Foundation's endowment consisted of approximately 328 individual funds established for a variety of purposes. Its endowment includes both donor-restricted and funds designated by the Board of Directors to function endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

appropriated from the expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from the income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

CHADRON STATE FOUNDATION (Continued)

NOTE 8 - ACCOUNTING FOR INVESTMENTS AND ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment fund	$ -	$ 2,036,930	$14,322,344	$ 16,359,274
Board-designated endowment fund	529,200	-	-	529,200
Total funds	$ 529,200	$ 2,036,930	$14,322,344	$ 16,888,474

Changes in endowment net assets as of June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 398,483	$ 1,021,491	$11,024,187	$ 12,444,161
Contributions	-	-	924,561	924,561
Investment Income, net of fees	7,358	980,965	-	988,323
Net appreciation	47,593	597,365	-	644,958
Transfers	91,821	(2,083)	2,373,596	2,463,334
Amounts appropriated for expenditures	(16,055)	(560,808)	-	(576,863)
Endowment net assets, end of year	$ 529,200	$ 2,036,930	$14,322,344	$ 16,888,474

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	2013
Scholarships and College Use	$ 3,330,451

CHADRON STATE FOUNDATION (Continued)

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	2013
Purpose Restriction Accomplished:	
Scholarships	$ 414,546
College Use	750,000
Management Fees	404,034
Investment Fees	101,847
Total Restrictions Released	$ 1,670,427

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2013, net assets were permanently restricted for the endowment in the amount of $14,322,344. The income from the endowment can be used to support Chadron State College. At June 30, 2013, the fair value of investments related to the restricted endowment was $15,931,124, leaving the amount assigned to individual donor restricted endowments required to be maintained in perpetuity with an excess balance of $1,608,780 for 2013.

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, 2013 was $17,718.

NOTE 12 - COMMITMENTS

The Foundation will provide the College with $2 million for the Rangeland Center Project. The Foundation has been notified of the approval of a 1% interest loan from the Panhandle Rural Electric Membership, PREMA, through the Rural Economic Development Loan Program with the USDA. The conditions of the loan include a 10 year payback period with no penalty for prepayment. The Foundation was also required to obtain a bank guarantee for the PREMA loan to insure any default. First National Bank of North Platte approved the guarantee with an additional 1% interest rate amortized over the life of the loan. The Foundation has not drawn on the loan at this time.

CHADRON STATE FOUNDATION (Concluded)

NOTE 12 – COMMITMENTS (CONTINUED)

The Foundation has started transferring dollars to the Chadron State College for the Athletic Complex renovation and expansion. The Nebraska Legislature approved $6.7 million dollars towards the project with the condition of a $2 million dollar match from the College. The Foundation will provide the College with the $2 million match, plus an additional $1 million from the Chicoine Fund that will name the facility for a total commitment of $3 million.

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

NOTE 13 - SUBSEQUENT EVENTS

On August 24, 2013, the Chadron State Foundation Board approved named endowment and grant to campus payouts for the 2014-15 academic year. This will result in a liability at December 31, 2013 of $438,000 for the named endowments and $139,774 for the grant to campus.

The Foundation has evaluated subsequent events through October 4, 2013, the date which the financial statements were available to be issued.

PERU STATE FOUNDATION

NOTE A- ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements of Not-for-Profit Entities.* Under Codification 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

Permanently restricted net assets represent resources subject to donor-imposed restrictions that do not expire. Earnings from permanently restricted net assets are available for scholarships for qualifying students attending the College.

PERU STATE FOUNDATION (Continued)

NOTE A– ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

Use of estimates

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

Public Support and Revenues

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

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

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

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

Functional Allocation of Expenses

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

PERU STATE FOUNDATION (Continued)

NOTE A– ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The Foundation considers all investments with a maturity of three months or less to be cash equivalents. The Foundation maintains several bank accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at December 31, 2012. At December 31, 2012, cash balances exceeded federally insured limits by $672,000. Management believes there is no risk exposure with regards to cash balances at December 31, 2012.

Unconditional Promises to Give

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

Student Loans Receivable

Student loans receivable are carried at the original loan amount, less any allowance for doubtful accounts. The Foundation determines the allowance for doubtful accounts by regularly evaluating individual student loan receivables and considering the student's financial condition, credit history, and current economic conditions. All student loans receivable were written off as of December 31, 2012.

Property, equipment and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES (CONTINUED)

Property, equipment and depreciation (Continued)

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

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

Endowments and Investments

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

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

The Foundation follows the guidance of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in accounting for endowed assets. UPMIFA permits, subject to donor intent, appropriation for prudent expenditures as determined by the Foundation for the uses, benefits, purposes, and duration of the established endowment fund. The Foundation has determined that maintaining the historical endowed value is prudent for the use of the funds and any appreciation of the endowment is available for use. The amount of the net appreciation is reported as increases in unrestricted net assets in the statement of activities. Net depreciation in donor-restricted endowments is reimbursed from unrestricted net assets as necessary to replenish the endowment fund to its historic dollar value as established by the Foundation.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return

PERU STATE FOUNDATION (Continued)

NOTE A- ACCOUNTING POLICIES (CONTINUED)

Endowments and Investments – Continued

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

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

Compensated Absences

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

Income Taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 170(b)(1)(A)(vi). There was no unrelated business income for 2012.

The Foundation's federal Exempt Organization Tax Returns (Form 990) for 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

PERU STATE FOUNDATION (Continued)

NOTE B - CONCENTRATION OF CREDIT RISK

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

NOTE C - INVESTMENTS

The Foundation's investments at December 31, 2012 consist of the following:

	Cost	Gross Unrealized Gain/(Loss)	Fair Market Value
Fixed Income Funds:			
Westwood Cash Reserves, LLC	$ 200,440	$ 132	$ 200,572
Westwood Core Income, LLC	1,042,908	269,435	1,312,343
Westwood Total Return, LLC	1,025,011	1,518,881	2,543,892
Equity Funds:			
Westwood Tactical Opportunity, LLC	331,000	185,610	516,610
Westwood Diversified Core Equity, LLC	982,085	1,129,431	2,111,516
Westwood Focused Core Equity, LLC	849,824	273,849	1,123,673
Westwood Diversified Small/Mid Cap Equity, LLC	232,764	306,093	538,857
Westwood Focused Small Cap Equity, LLC	286,622	7,454	294,076
Westwood International Equity, LLC	1,094,097	493,580	1,587,677
	$ 6,044,751	$ 4,184,465	$ 10,229,216

Investment expense which consists of management fees totaled $67,832 for the year ending December 31, 2012.

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

	2012
Fair Value of Endowed Assets	$ 7,486,703
Historical Dollar Value of Endowed Assets	(5,637,520)
Net Appreciation - Endowed Assets	$ 1,849,183

PERU STATE FOUNDATION (Continued)

NOTE D - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2- Inputs are other than quoted prices included within Level l that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; and inputs that are derived principally from or corroborated by observable market data.

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

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

NOTE E - NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2012
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.	158,189
Less Current Portion of Notes Receivable	20,334
	$ 137,855

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

NOTE E - NOTES RECEIVABLE (CONTINUED)

The aggregate maturities of notes receivable are as follows:

2013	$	20,334
2014		21,046
2015		21,783
2016		22,545
2017		23,334
Thereafter		49,147
	$	158,189

NOTE F - REFUNDABLE DEPOSITS

Beginning in 2003, the Bobcat Athletic Association, Peru Booster Club, Peru Student Organization, and Farmer to Farmer Fund had entered into intermediary agreements with the Foundation. Funds are being held in cash accounts by the Foundation as an agent of these organizations to be disbursed at their request. The funds are not owned by the Foundation and are not pooled with the Foundation's investments. The liability included in the accompanying statements of financial position represents the amount due to these entities totaling $64,376 as of December 31, 2012. The Farmer to Farmer Fund was closed during 2012.

NOTE G - GIFT ANNUITIES

The Foundation has entered into agreements with donors in which the donor contributes cash to the Foundation in exchange for the distribution of fixed monthly or quarterly amounts to the donor until the death of the donor. The gift annuity liability of $77,752 as of December 31, 2012, represents the present value of the future cash flows expected to be paid to the donors. The annuities payable are discounted at 1.18% (7-year Treasury Bill rate at December 31, 2012) and are due in monthly and quarterly installments. In April 2013, an annuity recipient passed away. The outstanding balance of $76,452 of that annuity is considered all current and the remaining balance will be a contribution in 2013.

The aggregate maturities of gift annuities for the years ending after December 31, 2012, are as follows:

Year		
2013	$	76,847
2014		400
2015		404
2016		101
	$	77,752

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Continued)

NOTE H - NOTES PAYABLE

The Foundation has a bank loan with interest at a fixed rate of 6.00%, and is payable in monthly installments of $324 including interest. The Foundation also has a $210,000 short-term bank loan that bears interest at 3.50%.

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

Maturities on these notes are as follows:

Years Ending December 31,		
2013	$	216,692
2014		834
2015		833
2016		833
	$	219,192

NOTE I - NET ASSETS

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

		2012
Designated for scholarship	$	600,620
Designated for work stipends		571,581
Designated for campus improvements		5,500
	$	1,177,701

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

		2012
Restricted for scholarships	$	699,423
Restricted for education and athletic departments		706,440
Restricted for Oak Bowl Renovation		546,714
	$	1,952,577

PERU STATE FOUNDATION (Continued)

NOTE I - NET ASSETS (CONTINUED)

Permanently restricted net assets consist of endowment fund assets held indefinitely. The income from the assets is used for scholarships and to support the Foundation. Amounts appropriated for scholarships in 2012 amounted to $157,256.

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

	2012
Purpose restriction accomplished:	
Scholarships	$ 292,284
Departmental and athletic gifts to College	123,995
Management fees	16,216
	$ 432,495

NOTE J - RELATED PARTY TRANSACTIONS

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

	2012
Salary and Wage Reimbursement	$ 304,254
Gifts	63,213
Departmental Expenses	110,590
	$ 478,057

The Foundation owed the College for salary and wage expenses paid to its employees by the College in the amount of $56,316 at December 31, 2012.

NOTE K - PENSION PLAN

The College sponsors a defined contribution retirement pension plan, Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA/CREF), in which the Foundation’s employees are allowed to participate. The plan covers all employees upon attaining 30 years of age and having two years of college service. Employee contributions are limited to 6% of gross salary. The Foundation reimburses the College for the retirement fund contributions along with the salary reimbursements. The Foundation’s contributions to the plan totaled $16,039 for the year ended December 31, 2012 and is included in salaries and wages on the statement of functional expenses.

NOTES TO FINANCIAL STATEMENTS
(Continued)

PERU STATE FOUNDATION (Concluded)

NOTE L - CONCENTRATIONS

During 2012, the Foundation received approximately 59% of its contributions from three individuals. During 2011, the Foundation received approximately 75% of its contributions from one estate.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2013, 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION

NOTE A - FOUNDATION

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

See Note S regarding joint venture with Northeast Community College.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the years ended June 30, 2012 and 2011, from which the summarized information was derived.

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

Contributions

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

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

Pervasiveness of Estimates

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

Cash and cash Equivalents

The Foundation considers checking accounts to be cash equivalents.

Inventory

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

Property

Property is recorded at cost or estimated value at the date of purchase or contribution. Additions in excess of $2,500 are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Assets are being depreciated using the straight-line method with estimated useful lives of 25-40 years for real property and 5 years for vehicles. Depreciation expense was $8,860 for the year ended June 30, 2013.

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.

WAYNE STATE FOUNDATION (Continued)

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

Income Taxes

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

The Foundation files required income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Foundation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2009. The Foundation has concluded no material uncertain tax positions have been taken on any open tax returns. For the current year the Foundation believes all tax positions are fully supportable by existing Federal law and related interpretations and there are no uncertain tax positions to consider.

Collections

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

Advertising

The Foundation expenses advertising costs as they are incurred. Advertising expenses for the year ended June 30, 2013, was $12,200.

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, 2013) for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through September 19, 2013, which is the date the financial statements were available to be issued.

NOTE C - CREDIT RISK ARISING FROM CASH DEPOSITS

At times the Foundation may have uninsured bank deposits. At June 30, 2013, the Foundation had bank deposits of $1,254,450 none of which 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, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unconditional Promises to give	$ -	$ 357,996	$ 14,440	$ 372,436
Less discount to Present value	-	(33,937)	(1,030)	(34,967)
Less allowance for uncollectible prom.	-	(14,015)	-	(14,015)
Net unconditional Promises to give	$ -	$ 310,044	$ 13,410	$ 323,454

Estimated future cash flows of unconditional promises are as follows:

	Estimated cash flows	Discount	Discounted value
Due 6/30/2013	$ 54,077	$ -	$ 54,077
6/30/2014	139,181	(5,584)	133,597
6/30/2015	61,713	(4,723)	56,990
6/30/2016	27,450	(3,142)	24,308
6/30/2017	11,000	(1,717)	9,283
6/30/2018	7,500	(1,336)	6,164
More than 5 years 6/30/2019-2028	57,500	(18,465)	39,035
	$ 358,421	$ (34,967)	$ 323,454

The allowance for uncollectible promises represents the unpaid portion of the Phonathon pledges. All other pledges are considered collectible. At June 30, 2013 $54,077 of other pledges were past due including $35,981 that were over 90 days past due. Other pledges written off for the fiscal year ended June 30, 2013, was $66,250.

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

NOTE E - INVESTMENTS

Investments as of June 30, 2013 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	6/30/13 Total
Money markets	$ 909	$ 782,576	$ 3,976	$ 787,461
Certificates of Deposits	46,349	419,834	257,448	723,631
Commonfund- Equity Fund	1,166,373	1,324,824	8,185,608	10,676,805
Commonfund- Bond Fund	555,594	148,259	3,243,116	3,946,969
Subtotal Commonfund	1,721,967	1,473,083	11,428,724	14,623,774
Other Securities	18,708	96,963	28,169	143,840
Totals	1,787,933	2,772,456	11,718,317	16,278,706
Investments Restricted for annuity contracts:				
Commonfund- Equity Fund	292,360	-	460,871	753,231
Commonfund- Bond Fund	115,557	-	178,741	294,298
Totals	407,917	-	639,612	1,047,529
Investments held in perpetual trust:				
Money Markets	-	-	12,286	12,286
Bonds and notes	-	-	281,074	281,074
Equities	-	-	531,097	531,097
Totals	-	-	824,457	824,457
Total all investments	$ 2,195,850	$ 2,772,456	$ 13,182,386	$ 18,150,692

NOTE E - INVESTMENTS (cont'd)

Market Risk from Concentration of Investments with Advisor

At June 30, 2013 the Foundation had investments (including reserved for annuities) with Commonfund of $15,671,303, which represents approximately 86% 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, 2013 in valuing the Foundation's investments:

June 30, 2013	Level 1	Level 2	Level 3	Total
Short Term Cash Investments and Certificate of Deposits	$ 19,734	$ 1,511,091	$ -	$ 1,530,825
U.S. Equity	541,858	9,258,330	-	9,800,188
International Equity	95,593	1,485,905	-	1,581,498
Emerging Markets Equity	28,294	685,802	-	714,096
Fixed Income	282,818	4,241,267	-	4,524,085
Total	$ 968,297	$ 17,182,395	$ -	$ 18,150,692

The Foundation did not hold other financial instruments as of June 30, 2013.

WAYNE STATE FOUNDATION (Continued)

NOTE E - INVESTMENTS (cont'd)

Investments Held in Perpetual Trust

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

Investment Management Fees

Investment management fees have been deducted from investment income.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Management Fees	$ 6,791	$ 38,451	$ 11,034	$ 56,276

NOTE F - PROPERTY

During the year ended June 30, 2012, the Foundation received contributed property which had a life estate attached to it. As of June 30, 2013, the beneficiary was still living in the house; therefore, it is not being depreciated.

	Bressler Alumni House	1308 Main	Cunningham Condo	Vehicle	Total
Land	$ 20,000	$ 39,500	$ -	$ -	$ 59,500
Building	134,417	81,000	80,000		295,417
Vehicle	-	-	-	17,371	17,371
Subtotal	154,417	120,500	80,000	17,371	372,288
Accumulated Depreciation	(51,109)	(15,600)	-	(2,606)	(69,315)
Net 6-30-13	$ 103,308	$ 104,900	$ 80,000	$ 14,765	$ 302,973
Depreciation Exp. FYE 6-30-13	$ 3,554	$ 2,700	$ -	$ 2,606	$ 8,860

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:

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Continued)

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

	Policy Amount	6/30/13 Cash Value
Unrestricted	$ 376,178	$ 64,619
Temporarily Restricted	37,500	3,357
Permanently Restricted	122,897	14,566
Totals	$ 536,575	$ 82,542

NOTE H - ANNUITY CONTRACTS

The Foundation has entered into several annuity agreements whereby the donor transfers either cash, property, or both and, in consideration, the Foundation agrees to pay the donor a stated dollar amount annually for the remainder of his/her life, at which time the remaining assets are available for their unrestricted (or restricted if so designated by the donor) use by the Foundation. The Foundation records the assets at fair value when received. The liability is recorded at the present value of expected future cash flows to be paid to the annuitant with the difference recorded as an unrestricted or restricted contribution. The liabilities are computed using discount rates varying from 1.2% to 9.6% and life expectancies of annuity beneficiaries based on IRS tables.

Annuity assets and liabilities as of June 30, 2013, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Investments restricted for annuity contracts	$ 407,917	$ 639,612	$ 1,047,529
Annuities Payable	$ 137,007	$ 342,599	$ 479,606

NOTE I - UNRESTRICTED NET ASSETS

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

Board Designated:	
Quasi-Endowment	$ 263,651
Total board designated	$ 263,651

WAYNE STATE FOUNDATION (Continued)

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2013:

Program Activities:	
Scholarships and Grants	$ 2,112,708
Improvements	570,390
College Departments	645,029
SSC College Center (see Note S)	91,372
Time Only Restriction (Unrestricted receivables)	66,967
Other Designated Programs	5,544
Total Temporarily Restricted Net Assets	$ 3,492,010

NOTE K - PERMANENTLY RESTRICTED NET ASSETS

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

NOTE L - ENDOWMENT FUNDS

The Foundation's endowment consists of approximately 309 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

NOTE L - ENDOWMENT FUNDS (cont'd)

described by NUPMIFA. In accordance with NUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds,(2) the purposes of the donor-restricted endowment funds,(3) general economic conditions,(4) the possible effect of inflation and deflation,(5) the expected total return from income and the appreciation of investments,(6) other resources of the Foundation, and (7) the Foundation's investment policies.

Endowment Net Asset Composition by Type of Fund as June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (13,507)	$ 1,966,512	$ 11,792,532	$ 13,745,537
Board-designated endowment funds	263,651	-	-	263,651
Total Funds	$ 250,144	$ 1,966,512	$ 11,792,532	$ 14,009,188

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 166,744	$ 621,240	$ 10,630,769	$ 11,418,753
Contributions	-	-	1,123,680	1,123,680
Transfers	-	(13,629)	38,083	24,454
Net investment income	4,003	190,364	-	194,367
Net appreciation (depreciation)	79,397	1,571,264	-	1,650,661
Amounts appropriated for expenditure	-	(402,727)	-	(402,727)
Endowment net assets, end of year	$ 250,144	$ 1,966,512	11,792,532	$ 14,009,188

Other permanently restricted net assets:	
Interest in Robert Cunningham Perpetual Trust	824,457
Real estate restricted for use towards Cunningham Scholarship	40,000
Cash Value of Life Insurance to Fund Permanently Restricted Endowment Funds	14,566
Charitable Gift Annuity Net Assets to Fund Permanently Restricted Endowments at a Future Date	297,013
Promises to Fund Permanently Restricted Endowment Funds	13,410
Total Permanently Restricted Net Assets	$ 12,981,978

NOTE L - ENDOWMENT FUNDS (cont'd)

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $13,507 as of June 30, 2013. 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.

Contributions. Contributions are reported net of the decrease to promises to fund permanently restricted endowment funds (net endowment receivables collected) of $2,950.

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

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

WAYNE STATE FOUNDATION (Continued)

NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE N - CONTRIBUTED SERVICES

The Foundation receives donated accounting services, secretarial services and rent from Wayne State College. The estimated fair value for these services was $151,405, for the year ended June 30, 2013. This amount has been recognized in the financial statements.

NOTE O - PENSION PLAN

The Foundation contributes to a defined contribution retirement plan and is required to contribute 8% of the employee's salary. The Foundation's contributions to the retirement plan was $18,958, for the year ended June 30, 2013.

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

The costs of vacation pay and sick pay are accrued. Up to 25% of accumulated sick pay is payable upon retirement or death. Total accumulated sick pay at June 30, 2013 was $101,488 and the accrual was $26,779. Accumulated vacation is payable upon termination and at June 30, 2013 was $21,182.

NOTE Q - COMMITMENTS

On January 27, 2010 Wayne State Foundation approved the concept and estimated budget to repair and restore the Willow Bowl on Wayne State College's campus. The project will be financed in full by the Wayne State Foundation. The estimated project cost is $884,593. Construction began on this project in May 2012 and is expected to be completed in July of 2013. As of June 30, 2013, $817,823 had been paid towards the project. The Foundation has gifts and pledges of $893,857 which includes receivables of $40,127. Any funds received in excess of cost will be used for landscaping.

The Foundation has agreed to raise funds for the Conn Library renovation in the amount of $2 million. The total cost of the Conn Library renovation is estimated to be $18 million. The College has received a commitment from the State of Nebraska to provide $12 million and an estimated amount of $3 million from the Nebraska 309 Task Force. Construction is scheduled to begin in May 2014 for Phases I & II, August 2015 for Phase III, and June 2016 for Phases IV, V and VI.

WAYNE STATE FOUNDATION (Continued)

NOTE Q - COMMITMENTS (cont'd)

The Foundation has agreed to raise funds for the Athletic Improvement Project in the amount of $575,000. The total cost of the Athletic Improvement Project is estimated to be $1.65 million. As of June 30, 2013, the Foundation has gifts and pledges of $500,000.

NOTE R - RELATED PARTIES

For the year ended June 30, 2013 the Foundation provided direct support to Wayne State College of $2,748,624 and reimbursed the College for $333,347 for payroll and other operating expenses. Direct support consisted of $1,677,175 for scholarships, stipends, and tuition assistance; $951,906 for capital improvements for the Athletic Facility Renovation, Carhart Science Building Renovation, and Willow Bowl Renovation; $88,613 for Athletics programs budget transfers and programs; and $24,333 for college departments. Additional indirect support of $128,803 was made to vendors and individuals for support of Wayne State College. The Foundation also made payments of $127,039 for payables of prior year direct support for total payments to Wayne State College of $3,209,010.

The Foundation had cash and CD's totaling $248,473, as of June 30, 2013, at State National Bank, where one of their board members is a chairman.

The Foundation had cash and CD's totaling $189,138, as of June 30, 2013, at First Nebraska Bank of Wayne, where one of their board members is president.

The Foundation had cash and CD's totaling $150,000, as of June 30, 2013, at Siouxland National Bank, where one of their board members is president.

The Foundation had CD's and investments totaling $926,862, as of June 30, 2013, at Edward Jones, where one of their board members is a partner.

The Foundation had various transactions for the year ended June 30, 2013 with the Diamond Center and Flowers & Wine totaling $4,768. The owner of the two businesses is a board member of the Foundation.

The Foundation purchased a car from Arnies' Ford Mercury, during the year ended June 30, 2013, for $17,371. One of the board members for the Foundation is an owner of this business.

The Foundation purchased Business and Property Insurance from Northeast Nebraska Insurance, during the year ended June 30, 2013, for $3,762. One of the board members for the Foundation is an owner of this business.

NOTES TO FINANCIAL STATEMENTS
(Continued)

WAYNE STATE FOUNDATION (Concluded)

NOTE R - RELATED PARTIES (cont'd)

Board members and employees may pledge amounts to the Foundation for various projects and campaigns for support. At June 30, 2013 the outstanding pledge balances was $116,000.

NOTE S - SSC COLLEGE CENTER

Wayne State College and Northeast Community College have a partnership to provide access to affordable comprehensive programs for associate, bachelor and master's degrees in South Sioux City, NE. To facilitate these educational programs, they have constructed a building, which is referred to as the College Center. The College Center is located at 1001 College Way in South Sioux City on 57 acres donated by the South Sioux City Community Development Agency. It has a total of 39,000 sq. ft. on two floors. The building cost an estimated $8.7 million. A grand opening was held on April 20, 2011.

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

The Foundation's contribution revenue for the fiscal year for the College Center included no new outright gifts and no new pledges. Pledges receivable at June 30, 2013 included in the temporarily restricted balance, amounted to $91,450 with a net present value of $86,793.

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF NET POSITION
June 30, 2013

	Chadron	Peru	Wayne	Board of Trustees	Total
Assets					
Current Assets					
Cash and Cash Equivalents	$ 7,175,636	$ 3,028,075	$ 15,347,211	$ 964,786	$ 26,515,708
Restricted Cash and Cash Equivalents	751,641	707,986	4,470,819	8,967,029	14,897,475
Accounts Receivable, Net of Allowance	310,380	1,310,921	229,637	17,513	1,868,451
State Grants and Appropriations Receivable	-	6,296	34,058	260,566	300,920
Other Receivables	81,338	83,673	-	14,899	179,910
Inventories	7,217	87,132	44,945	-	139,294
Loans to Students, Net	125,810	-	241,137	-	366,947
Prepaid Expenses	284,964	119,609	221,914	19,891	646,378
Deposits with Vendors	-	-	1,510	17,006	18,516
Total Current Assets	8,736,986	5,343,692	20,591,231	10,261,690	44,933,599
Non-current Assets					
Restricted Cash and Cash Equivalents	12,858,535	3,406,648	7,843,590	-	24,108,773
Loans to Students, Net	916,585	-	1,004,942	-	1,921,527
Capital Assets, Net	36,359,012	43,336,871	81,466,512	5,896,948	167,059,343
Unamortized Bond Issue Costs, Net	252,244	50,843	170,695	256,479	730,261
Unamortized Bond Refunding Amount, Net	-	9,087	16,424	-	25,511
Other Non-current Assets	-	-	32,591	-	32,591
Total Non-current Assets	50,386,376	46,803,449	90,534,754	6,153,427	193,878,006
Total Assets	59,123,362	52,147,141	111,125,985	16,415,117	238,811,605
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	2,431,193	1,841,990	3,235,190	1,402,830	8,911,203
Accrued Compensated Absences	172,052	72,044	161,954	17,570	423,620
Unearned Revenue	48,386	22,865	275,291	-	346,542
Interest Payable	194,656	93,732	144,101	314,245	746,734
Long-Term Debt	205,000	316,046	705,000	1,635,000	2,861,046
Deposits Held in Custody for Others	34,097	3,700	23,438	-	61,235
Total Current Liabilities	3,085,384	2,350,377	4,544,974	3,369,645	13,350,380
Non-current Liabilities					
Accrued Compensated Absences	1,142,309	611,934	1,394,107	233,433	3,381,783
Unamortized Bond Premium	-	-	-	149,441	149,441
Long-Term Debt	12,225,000	5,991,809	10,775,000	13,805,000	42,796,809
Total Non-current Liabilities	13,367,309	6,603,743	12,169,107	14,187,874	46,328,033
Total Liabilities	16,452,693	8,954,120	16,714,081	17,557,519	59,678,413
Net Position					
Net Investment in Capital Assets	24,181,256	37,099,518	70,173,631	(9,974,835)	121,479,570
Restricted for:					
Expendable:					
Loans	1,168,318	-	1,372,803	-	2,541,121
Debt Service	7,641,536	3,281,461	12,307,328	2,279,407	25,509,732
Plant	-	-	-	3,974,066	3,974,066
Other	439,819	487,071	380,129	1,569,989	2,877,008
Unrestricted	9,239,740	2,324,971	10,178,013	1,008,971	22,751,695
Total Net Position	$ 42,670,669	$ 43,193,021	$ 94,411,904	$ (1,142,402)	$ 179,133,192

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2013

	Chadron	Peru	Wayne	Board of Trustees	Total
Operating Revenues					
Tuition and Fees, Net of Scholarship Allowances and Institutional Waivers	$ 8,413,958	$ 5,569,429	$ 11,857,808	$ -	$ 25,841,195
Federal Grants and Contracts	4,343,583	3,435,333	5,574,556	-	13,353,472
State Grants and Contracts	292,335	250,747	514,278	-	1,057,360
Private Grants and Contracts	951,226	688,000	512,352	-	2,151,578
Auxiliary Enterprises, Net of Scholarship Allowances and Institutional Waivers	5,838,974	2,720,589	8,430,205	-	16,989,768
Other Operating Revenues	65,652	66,802	163,082	-	295,536
Total Operating Revenues	19,905,728	12,730,900	27,052,281	-	59,688,909
Operating Expenses					
Compensation and Benefits	20,299,674	12,654,002	27,661,379	1,175,191	61,790,246
Contractual Services	1,263,571	697,488	1,457,518	634,550	4,053,127
Supplies and Materials	4,427,809	2,572,809	4,711,088	75,279	11,786,985
Scholarships and Fellowships	1,710,962	2,155,872	1,836,042	-	5,702,876
Depreciation	1,583,109	1,351,677	3,152,749	878,144	6,965,679
Utilities	1,309,077	773,688	1,816,579	-	3,899,344
Repairs and Maintenance	870,829	613,596	1,601,421	-	3,085,846
Communications	164,241	165,127	197,990	17,917	545,275
Food Service	1,821,279	1,134,770	2,537,653	-	5,493,702
Other	1,713,566	552,991	124,710	152,028	2,543,295
Total Operating Expenses	35,164,117	22,672,020	45,097,129	2,933,109	105,866,375
Operating Loss	(15,258,389)	(9,941,120)	(18,044,848)	(2,933,109)	(46,177,466)
Non-operating Revenue (Expenses)					
State Appropriations	16,315,963	8,674,024	19,672,568	1,481,487	46,144,042
Investment Income	295,052	116,699	607,861	181,280	1,200,892
Interest on Capital Asset-Related Debt	(31,278)	(191,640)	(299,927)	(666,500)	(1,189,345)
Gain (Loss) on Disposal of Asset	(14,396)	-	-	-	(14,396)
Other Non-operating Revenue (Expense)	498,832	(21,594)	6,688	(47,944)	435,982
Net Non-operating Revenues (Expenses)	17,064,173	8,577,489	19,987,190	948,323	46,577,175
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	1,805,784	(1,363,631)	1,942,342	(1,984,786)	399,709
Other Revenues, Expenses, or Gains (Losses)					
Capital Facilities Fees	-	-	-	2,084,958	2,084,958
Capital Contributions	-	802,500	990,636	-	1,793,136
Operating Transfers In (Out)	(176,964)	579,830	467,830	(870,696)	-
Capital Appropriations and Grants	1,106,194	2,985,146	1,202,899	1,375,000	6,669,239
Net Other Revenues, Expenses, or Gains (Losses)	929,230	4,367,476	2,661,365	2,589,262	10,547,333
Increase in Net Position	2,735,014	3,003,845	4,603,707	604,476	10,947,042
Net Position, Beginning of Year	39,935,655	40,189,176	89,808,197	(1,746,878)	168,186,150
Net Position, End of Year	$ 42,670,669	$ 43,193,021	$ 94,411,904	$ (1,142,402)	$ 179,133,192

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2013

	Chadron	Peru	Wayne	Board of Trustees	Total
Cash Flows From Operating Activities					
Tuition and Fees	$ 8,581,660	$ 4,952,947	$ 12,141,945	$ -	$ 25,676,552
Grants and Contracts	5,587,144	4,374,080	6,601,186	-	16,562,410
Payments to Suppliers	(9,902,959)	(5,233,853)	(10,101,630)	(676,601)	(25,915,043)
Payments for Utilities	(1,308,969)	(773,688)	(1,816,579)	-	(3,899,236)
Payments to Employees	(20,146,799)	(12,656,563)	(27,587,944)	(1,050,980)	(61,442,286)
Loans Issued to Students	(87,922)	-	233,143	-	145,221
Collections of Loans to Students	230,360	-	(231,977)	-	(1,617)
Sales and Services of Auxiliary Enterprises	5,819,480	2,635,040	8,421,009	-	16,875,529
Other Payments	(1,645,310)	(2,089,070)	(1,797,670)	-	(5,532,050)
Net Cash Used in Operating Activities	(12,873,315)	(8,791,107)	(14,138,517)	(1,727,581)	(37,530,520)
Cash Flows From Non-capital Financing Activities					
State Appropriations	16,330,521	9,033,099	19,687,406	1,424,593	46,475,619
Grants and Contracts	-	(5,063)	105,463	-	100,400
Direct Lending Receipts	10,692,435	8,505,859	13,347,827	-	32,546,121
Direct Lending Payments	(10,692,435)	(8,505,859)	(13,347,827)	-	(32,546,121)
Other Receipts (Payments)	498,832	(21,594)	6,688	(47,944)	435,982
Net Cash Provided by Non-capital Financing Activities	16,829,353	9,006,442	19,799,557	1,376,649	47,012,001
Cash Flows From Capital and Related Financing Activities					
Proceeds from Capital Debt	7,735,000	-	-	-	7,735,000
Capital Contributions	-	802,500	990,636	-	1,793,136
Purchase of Capital Assets	(4,879,666)	(3,636,705)	(6,676,015)	-	(15,192,386)
Disposal of Capital Assets	(14,396)	-	-	-	(14,396)
Principal Paid on Capital Debt	(200,000)	(2,916,046)	(6,515,000)	(1,575,000)	(11,206,046)
Interest Paid on Capital Debt	(119,709)	(218,609)	(393,715)	(716,782)	(1,448,815)
Capital Facilities Fees	-	-	-	2,090,829	2,090,829
Transfers In (Out)	(176,964)	579,830	467,830	(870,696)	-
Other	77,024	-	94,324	36,423	207,771
Capital Appropriations	1,106,194	2,985,146	1,202,899	1,375,000	6,669,239
Net Cash Provided (Used) by Capital and Related Financing Activities	3,527,483	(2,403,884)	(10,829,041)	339,774	(9,365,668)
Cash Flows From Investing Activities					
Investment Income	295,052	116,699	607,861	180,257	1,199,869
Net Cash Provided by Investing Activities	295,052	116,699	607,861	180,257	1,199,869
Increase (Decrease) in Cash and Cash Equivalents	7,778,573	(2,071,850)	(4,560,140)	169,099	1,315,682
Cash and Cash Equivalents, Beginning of Year	13,007,239	9,214,559	32,221,760	9,762,716	64,206,274
Cash and Cash Equivalents, End of Year	$ 20,785,812	$ 7,142,709	$ 27,661,620	$ 9,931,815	$ 65,521,956

(Continued)

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF CASH FLOWS
Fiscal Year Ended June 30, 2013

	Chadron	Peru	Wayne	Board of Trustees	Total
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position					
Cash and Cash Equivalents	$ 7,175,636	$ 3,028,075	$ 15,347,211	$ 964,786	$ 26,515,708
Restricted Cash and Cash Equivalents - Current	751,641	707,986	4,470,819	8,967,029	14,897,475
Restricted Cash and Cash Equivalents - Non-current	12,858,535	3,406,648	7,843,590	-	24,108,773
Total Cash and Cash Equivalents	$ 20,785,812	$ 7,142,709	$ 27,661,620	$ 9,931,815	$ 65,521,956
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities.					
Operating Loss	$(15,258,389)	$ (9,941,120)	$(18,044,848)	$ (2,933,109)	$(46,177,466)
Depreciation Expense	1,583,109	1,351,677	3,152,749	878,144	6,965,679
Changes in Operating Assets and Liabilities					
Receivables, Net	215,274	(651,636)	6,626	1,212	(428,524)
Inventories	4,987	(33,666)	1,792	-	(26,887)
Accounts Payable and Accrued Liabilities	454,689	542,509	405,515	306,331	1,709,044
Accrued Compensated Absences	191,074	(2,562)	73,435	21,124	283,071
Other Assets and Liabilities	(64,059)	(56,309)	266,214	(1,283)	144,563
Net Cash Used in Operating Activities	$(12,873,315)	$ (8,791,107)	$(14,138,517)	$ (1,727,581)	$(37,530,520)
Supplemental Cash Flows Information					
Accounts Payable Incurred for Capital Asset Purchases	$ 689,997	$ 904,196	$ 713,842	$ 13,633	$ 2,321,668

(Concluded)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component units of the Nebraska State College System as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska State College System's basic financial statements, and have issued our report thereon dated December 18, 2013. Our report includes a reference to other auditors who audited the financial statements of the Nebraska State College System Foundations, the Nebraska State Colleges Facilities Corporation and the Nebraska State College System Revenue and Refunding Bond Fund, 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*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response that we consider to be a significant deficiency, identified as SAP Transactions-Lack of Segregation of Duties.

Compliance and Other Matters

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

Nebraska State College System's Response to Finding

Nebraska State College System's response to the finding identified in our audit is described in our accompanying schedule of finding and response. Nebraska State College System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to management of the Nebraska State College System in a separate letter dated December 18, 2013.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska
December 18, 2013

Don Dunlap, CPA
Assistant Deputy Auditor

SAP Transactions-Lack of Segregation of Duties

A good internal control plan requires proper segregation of duties to ensure no one individual can process a transaction from beginning to end.

We noted a lack of segregation of duties in the processing of various types of transactions in SAP, which is the Nebraska State College System's (NSCS) and the University of Nebraska's (University) accounting system. (The University is overall responsible for the system design of SAP. Thus, the NSCS must coordinate with the University to make any system changes to SAP.) In addition, we also noted a lack of segregation of duties in the processing of various types of transactions in EnterpriseOne (E1), the State of Nebraska's (State) accounting system, which NSCS is required to use to process payroll and payments to vendors. Our audit noted the following:

Journal Entry (JE) Transactions in SAP

The workflow in the SAP system does not require separate preparers and posters of JE type transactions. As a result, certain individuals throughout the NSCS had the capability of completing JE transactions from beginning to end without a documented secondary review and approval in SAP. Each NSCS location (the three Colleges and the System Office) developed its own unique compensating controls to address this inherent system weakness. However, in general, the compensating controls put in place at all NSCS locations included a manual documentation of the preparer and poster of the JE transactions.

During our audit of the GL security roles in SAP for the fiscal year ended June 30, 2013, the APA identified 27 users with the ability to prepare and post journal entries in SAP without a secondary review or approval. Additionally, those users had a security role that allowed them to prepare and post all transaction types in SAP without a secondary review or approval. (For further comment and recommendation on this area, see the **Accounts Payable (A/P) Transactions** section of this comment below.)

The 27 users capable of preparing and posting JE transactions, as well as other transaction types, without a secondary review or approval are noted by location below:

Wayne State College	7 users
Peru State College	6 users
Chadron State College	9 users
NSCS System Office	3 users
University of NE Central Administration Office	2 users

When individuals are able to complete JE transactions (and other transaction types) without a documented secondary review and approval prior to posting the transaction to the GL, there is a greater risk of erroneous or inappropriate JE transactions (and other transaction types) occurring and going undetected. Additionally, in the absence of an adequate segregation of duties, there is an increased risk of loss, theft, or misuse of funds.

> We recognize that the NSCS has worked to implement compensating controls to mitigate risks related to the SAP system not having an established workflow, which would automatically require a segregation of duties in the preparation and posting of journal entries (and other transaction types). Nevertheless, we continue to recommend that the NSCS work with the University on a system-based SAP solution as well. Furthermore, we recommend that the NSCS modify its role configuration for the 27 users identified, so that those users will not have the ability to post any transaction types in SAP without a secondary review and approval.

Accounts Payable (A/P) Transactions

A good internal control plan includes an adequate segregation of duties, so no single individual has the ability to process an A/P transaction from beginning to end.

During our audit of the A/P security roles in SAP, we noted 24 users had the ability to prepare an invoice, post it in SAP, and also approve and post it in E1. Additionally, 14 of those users had the ability to create a purchase order, prepare the invoice related to the purchase order, and post the transaction in both SAP and E1.

The 24 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Wayne State College	7 users
Peru State College	6 users
Chadron State College	8 users
NSCS System Office	3 users

The 14 of 24 users identified above who could also prepare a purchase order are noted by location below:

Wayne State College	4 users
Peru State College	2 users
Chadron State College	5 users
NSCS System Office	3 users

The A/P roles in SAP did not restrict users from posting their own transactions. Those transactions were entered into E1 through an interface process. The users above had the ability to approve and post transactions that flowed through the interface process in E1.

Again, a lack of segregation of duties around the A/P process allows a single individual to purchase and pay vendors without a secondary review or approval. This risk allows for the possible theft and misuse of State funds.

> We recommend the NSCS work with the University to review the security design of the A/P roles in SAP and implement controls that require separate individuals to prepare and post A/P transaction types.

Ability to Change Pay Rates

A good internal control plan includes an adequate segregation of duties, so no single individual has the ability to adjust his or her own pay rate. A good internal control plan also requires the test environment of an application to mirror the production environment to ensure tests of the application functionality accurately predict the performance of the application in the production environment.

During a review of the human resources security roles in SAP, the APA identified 14 users with the ability to adjust their own pay rate in SAP. The HR role identified had a parameter set incorrectly, which allowed users to adjust their own pay. This issue was verified by the APA in the test environment; however, it could not be replicated in the production environment by the NSCS or University staff. Therefore, the APA was unable to determine whether those users could actually adjust their pay rate in the production environment.

The 14 users with the ability to adjust their own pay rate in SAP are noted by location below:

Wayne State College	5 users
Peru State College	4 users
Chadron State College	2 users
NSCS System Office	3 users

A lack of segregation of duties around the change of pay rates introduces the risk of possible theft and misuse of State funds. Moreover, when test environments do not function in the same manner as the production environment, there is an increased risk that tested controls and functionality will not work as designed.

SCHEDULE OF FINDING AND RESPONSE
For the Fiscal Year Ended June 30, 2013

We recommend the NSCS work with the University to review the security design of SAP. Furthermore, we recommend the NSCS work to implement controls that ensure an employee will not have the ability to change his or her own pay rate in SAP. We also recommend the NSCS work with the University to identify differences between the test and production environments.

Management's Response: The NSCS will continue working with the University to address the potential of system changes to deal with the issues identified and will review established roles.

The ability to change pay rates was only verified by the APA in the test environment. The NSCS tested several of the individuals noted in the production environment and determined that they could NOT change their pay rate in the production environment.