

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF EDUCATION
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA DEPARTMENT OF EDUCATION

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NEBRASKA DEPARTMENT OF EDUCATION

BACKGROUND

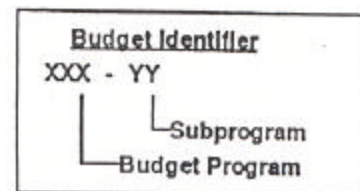
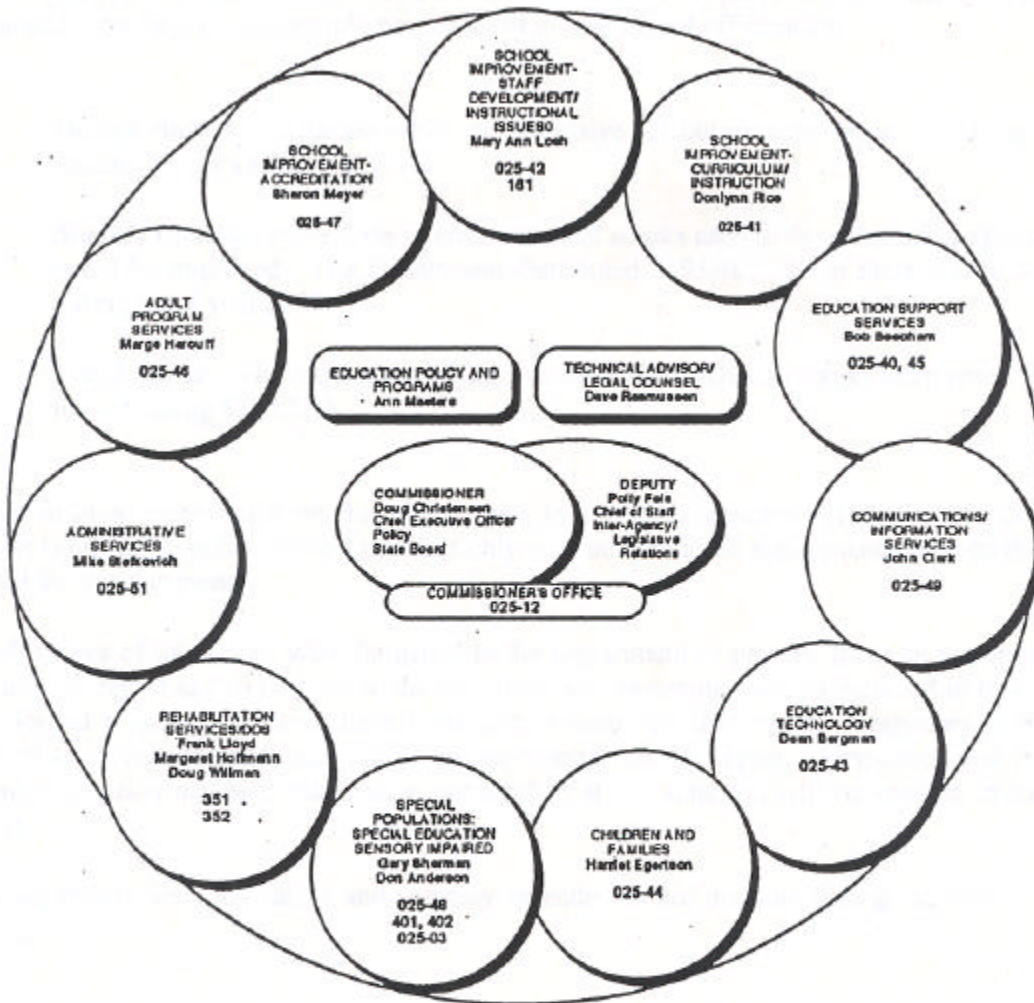
The State Department of Education (Department) is administered by the Commissioner of Education. The Commissioner is appointed by the publicly elected State Board of Education. The State Board is the policy-forming, planning, and evaluative body for the pre-Kindergarten through Grade 12 (pre-K-12) system. The Department provides educational leadership, services, and supervision to public education entities from pre-kindergarten through 12th grade. The Department administers many state and federal programs for the benefit of the State's pre-K-12 education system. The Department is also responsible for the Nebraska School for the Visually Handicapped, which is administered through a contractual arrangement with Educational Service Unit No. 4, and the Nebraska Diagnostic Resource Center administered under contract by Educational Service Unit No. 10. The Department administers the Vocational Rehabilitation Program for people with disabilities, and processes applications for disability benefits under the federal Social Security Program and the Supplemental Security Income Program. The Department also provides administrative support to the Excellence in Education Council and the Professional Practices Commission.

MISSION STATEMENT

To lead and support the preparation of all Nebraskans for learning, earning, and living.

NEBRASKA DEPARTMENT OF EDUCATION

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Education, we noted certain matters involving the internal control over financial reporting and other operational matters, which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Disbursements:*** Unreasonable or excessive disbursements were noted on eight documents for a total of \$1,334.
2. ***Student Counts:*** Procedures to ensure student counts used in the calculation of State Aid could be improved. The Department distributed \$595,407,184 in State Aid to Schools during fiscal year 2000.
3. ***Fixed Assets:*** The fixed asset listing was inaccurate. Discrepancies were noted for 132 items totaling \$275,029.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

1. Disbursements

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal control also requires expense reimbursements be reviewed to ensure they are reasonable and in accordance with State Statute and Nebraska Department of Education policy.

The Nebraska Accounting System (NAS) Manual states that State agencies are exempt from sales, use, and lodging taxes. Nebraska Department of Education policies and the NAS Manual also provide meal reimbursement guidelines. Federal cost principles Circular A-87 requires costs to be reasonable and necessary, to be authorized or not prohibited under State regulations, and to be consistent with policies and procedures that apply to other activities of the government unit.

Our testing of 94 documents for operating and travel disbursements noted the following:

- Four expense reimbursements tested exceeded meal reimbursement limits by a total of \$53.
- One document paid hotel lodging for three Omaha-area participants to attend an Omaha-based workshop when commuting would have been reasonable. The lodging cost exceeded mileage reimbursement by a total of \$482.
- For two documents, the sales tax and lodging tax were not deducted prior to payment for a total tax amount of \$499.
- For one document, the hourly rate paid to the service provider exceeded the authorized rate per the 1998/1999 Reimbursable Special Education Rate Listing for a total difference of \$300.

We recommend the Department implement procedures to ensure adequate documentation is maintained and to ensure compliance with State and Federal regulations.

Department's Response:

- *The expense reimbursements identified do exceed "guidelines." Department policy permits meal reimbursement to exceed the Department's guidelines when reasonable with the approval of a Leadership Council member or designee.*
- *In this instance, the final sessions of each day usually started at 8:00 PM. This involved meeting quite late as a whole group and then many times small groups would meet much longer to revise and edit their work; many evening well after mid-night. The morning sessions would begin officially at 8:30 AM but often the small groups would meet prior to*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

1. **Disbursements** (Concluded)

that to complete their drafts of material. By having everyone staying in the same place, this made it easier for the small groups to get together when necessary and thus saved the entire group from having to meet additional days.

- *The audit finding is correct. Effective October 1, 2000, the Department of Education assumed the responsibility for the pre-audit of financial transactions. We will renew our effort to prevent this kind of occurrence in the future by calling this to the attention of our pre-audit staff.*
- *This comment concerns the July 1999 payment to an occupational therapist by Nebraska School for the Visually Handicapped (NSVH) for services provided during FY 1999. We received services for NSVH students and paid this individual by piggybacking on a contract with Nebraska City Public Schools (NCPS). In the past, NCPS had paid billings for services provided to both NCPS and NSVH students, then billed back to NSVH for the services provided to NSVH students. For FY 1999, NCPS requested that the therapist bill NSVH directly. In retrospect, NSVH should have entered directly into a contract with the therapist. This is no longer an issue since NSVH ceased to exist at the end of the 1998-1999 school year. The facility is now the Nebraska Center for the Education of Children who are Blind or Visually Impaired, and is operated by Educational Service Unit 4 under a Nebraska Department of Education contract.*

As to paying the \$42 per hour, the memo sent to approved providers by the Special Populations Office states that "Agencies or individuals may negotiate with school districts any mutually agreed upon rate for services." Obviously, NCPS had agreed to the \$42 per hour rate. If NSVH had entered into a contract directly, the same rate would have been paid under the contract.

2. **Student Counts**

The Department distributed \$595,407,184 in State Aid to Schools during fiscal year 2000. The calculation of State Aid includes a determination of the school's need based on the number of students in the school system.

Each School is required to have an annual audit per Department Rules and Regulations. These regulations require the audit to test for compliance with the Tax Equity and Educational Opportunities Support Act, and to consider the control system over determining a school district's Average Daily Membership and Average Daily Attendance to be a significant control system. However, we noted Department Regulations were not current and had not been updated for recent changes in Federal regulations and auditing standards. Furthermore, we were unable to determine from the audit reports reviewed whether the membership counts had been tested. Good internal control requires monitoring procedures to be adequate to ensure numbers used in the calculation of aid are accurate.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

2. **Student Counts** (Concluded)

We recommend the Department review procedures to ensure student counts are accurate. We further recommend the rules and regulations governing school audit requirements be updated.

Department's Response: The Department is in the process of revising Rules 1 and 2 with current audit requirements. We plan to work with the Auditor's Office, school officials and practitioners as part of the revision process.

We understand that in some instances, the membership reports filed with the Department did not agree to the membership reports on file with the Districts. When Districts file the membership reports with the Department, staff edit and review them for accuracy. In addition, Districts contact the Department by telephone or by mail indicating changes they wish to make to membership reports.

We plan to work with the Auditor's office to establish procedures for accepting changes to membership reports.

3. **Fixed Assets**

Good internal control requires procedures to ensure the fixed asset listing is accurate and all capital expenditures are added in a timely manner.

During our audit, we noted the June 30, 2000 "Account Code 4800 Expenditures Not On Inventory" Report had 106 items, totaling \$178,875, which had been coded to Capital Outlay but were not found on inventory. An additional 26 items were added at an amount less than the amount of the disbursement document by \$96,154, for a total variance of \$275,029.

We recommend the Department implement procedures to ensure all assets are accurately added to the inventory listing in a timely manner. Such procedures could include a review of the "Account Code 4800 Expenditures Not On Inventory" Report.

Department's Response: We discovered that our previous Office Services Supervisor, who resigned June 27, 2000, had not kept up with the review of the "Account Code 4800 Expenditures Not on Inventory" report. We have not completed a review of the report and have processed adjustments to the State Wide Inventory System (SWIS). Additions to SWIS, and corrections to "purchase cost" figures, amounted to \$154,901.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

3. **Fixed Assets** (Concluded)

On the remaining \$120,128 variance noted in the comments, the majority was for items coded incorrectly. For example, on one document 59 monitors with a purchase cost of \$241.50 each were coded to account 4856 when they should have been coded to account 4345 because they were under the FY2000 capitalization threshold of \$300. This document alone amounts to a \$14,248.50 variance. Obviously, both the agency and DAS Accounting pre-audit section missed the errors in coding. This should now be alleviated because the Department assumed the Nebraska Accounting System (NAS) pre-audit function in October 2000. We conducted in-service sessions for Department staff involved in the pre-audit responsibility to clarify the connection between the coding of payments to the 4800 series account codes and SWIS.

To ensure that all assets are accurately added to SWIS, the Department is implementing the following procedure to review the "Account Code 4800 expenditures Not on Inventory" report.

- 1. When the report is received, documents appearing on the report will be reviewed.*
- 2. Appropriate steps will be taken to either correct SWIS or process a journal entry to correct the account code in NAS.*
- 3. A file will be maintained to document any steps taken.*
- 4. The Accounting Systems Coordinator will review the file quarterly, and in June of each year.*

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF EDUCATION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Education as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Education, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Education as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2001, on our consideration of the Nebraska Department of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The Report On Compliance And On Internal Control Over Financial Reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the financial statements.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

February 7, 2001

Pat Reding, CPA
Manager

NEBRASKA DEPARTMENT OF EDUCATION
COMBINED STATEMENT OF ASSETS, FUND BALANCES AND OTHER CREDITS
ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP
June 30, 2000

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	Totals (Memorandum Only)
<u>Assets</u>					
Cash in State Treasury	\$ -	\$ 26,442,934	\$ 10,147,187	\$ -	\$ 36,590,121
Deposit with Vendors	58,889	-	7,330	-	66,219
Petty Cash	50	-	-	-	50
Property, Plant, and Equipment (Note 9)	-	-	-	7,476,224	7,476,224
Total Assets	<u>\$ 58,939</u>	<u>\$ 26,442,934</u>	<u>\$ 10,154,517</u>	<u>\$ 7,476,224</u>	<u>\$ 44,132,614</u>
<u>Fund Balances and Other Credits</u>					
Other Credits,					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 7,476,224	\$ 7,476,224
Fund Balances:					
Reserved For Vendor Deposits	58,889	-	7,330	-	66,219
Unreserved, Undesignated	50	26,442,934	10,147,187	-	36,590,171
Total Fund Balances and Other Credits	<u>\$ 58,939</u>	<u>\$ 26,442,934</u>	<u>\$ 10,154,517</u>	<u>\$ 7,476,224</u>	<u>\$ 44,132,614</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF EDUCATION
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	Governmental Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	
RECEIPTS:				
Appropriations	\$ 745,791,067	\$ -	\$ -	\$ 745,791,067
Intergovernmental	-	165,365,214	2,172	165,367,386
Sales and Charges	9,044	1,264,700	-	1,273,744
Miscellaneous	6,737	1,953,905	838,760	2,799,402
TOTAL RECEIPTS	<u>745,806,848</u>	<u>168,583,819</u>	<u>840,932</u>	<u>915,231,599</u>
DISBURSEMENTS:				
Personal Services	6,870,699	14,549,883	-	21,420,582
Operating	5,252,582	7,383,820	85,334	12,721,736
Travel	298,133	620,424	-	918,557
Capital Outlay	198,011	510,942	84,622	793,575
Government Aid	<u>733,171,642</u>	<u>156,351,238</u>	<u>28,442,484</u>	<u>917,965,364</u>
TOTAL DISBURSEMENTS	<u>745,791,067</u>	<u>179,416,307</u>	<u>28,612,440</u>	<u>953,819,814</u>
Excess of Receipts Over (Under) Disbursements	<u>15,781</u>	<u>(10,832,488)</u>	<u>(27,771,508)</u>	<u>(38,588,215)</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	9,048	-	-	9,048
Operating Transfers In (Note 8)	-	22,932,746	10,028,265	32,961,011
Operating Transfers Out (Note 8)	-	(12,532,680)	-	(12,532,680)
Deposits to State General Fund	(24,829)	-	-	(24,829)
Net Distributive Activity (Note 5)	-	(212,693)	(9,670)	(222,363)
Adjustment to Fund Balance	(466)	17,813	-	17,347
Deposits from Other Agencies (Note 6)	<u>-</u>	<u>1,019,583</u>	<u>20,173,419</u>	<u>21,193,002</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,247)</u>	<u>11,224,769</u>	<u>30,192,014</u>	<u>41,400,536</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(466)	392,281	2,420,506	2,812,321
FUND BALANCE, JULY 1, 1999	<u>59,405</u>	<u>26,050,653</u>	<u>7,734,011</u>	<u>33,844,069</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 58,939</u>	<u>\$ 26,442,934</u>	<u>\$ 10,154,517</u>	<u>\$ 36,656,390</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General, Cash, Federal, and Revolving Funds
 For the Year Ended June 30, 2000

	GENERAL FUND			CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ 745,791,067			\$ -	
Intergovernmental		-			284,082	
Sales and Charges		9,044			593,733	
Miscellaneous		<u>6,737</u>			<u>1,439,933</u>	
TOTAL RECEIPTS		<u>745,806,848</u>			<u>2,317,748</u>	
DISBURSEMENTS:						
Personal Services		6,870,699			565,109	
Operating		5,252,582			354,993	
Travel		298,133			39,904	
Capital Outlay		198,011			61,680	
Government Aid		<u>733,171,642</u>			<u>12,526,264</u>	
Total Budgeted	757,511,780	745,791,067	11,720,713	54,305,549	13,547,950	40,757,599
Under (Over Budgeted) (Note 10)	<u>(364,952)</u>	-	<u>(364,952)</u>	<u>1,000</u>	-	<u>1,000</u>
TOTAL DISBURSEMENTS	<u>757,146,828</u>	<u>745,791,067</u>	<u>11,355,761</u>	<u>54,306,549</u>	<u>13,547,950</u>	<u>40,758,599</u>
Excess of Receipts Over (Under) Disbursements		<u>15,781</u>			<u>(11,230,202)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		9,048			-	
Operating Transfers In		-			18,707,989	
Operating Transfers Out		-			(8,307,923)	
Deposit to State General Fund		(24,829)			-	
Net Distributive Activity		(466)			(205,193)	
Adjustments to Fund Balance		-			-	
Deposits from Other Agencies		<u>-</u>			<u>1,019,583</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(16,247)</u>			<u>11,214,456</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		(466)			(15,746)	
FUND BALANCES, JULY 1, 1999		<u>59,405</u>			<u>23,174,596</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 58,939</u>			<u>\$ 23,158,850</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General, Cash, Federal, and Revolving Funds
 For the Year Ended June 30, 2000

	FEDERAL FUNDS			REVOLVING FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ -			\$ -	
Intergovernmental		165,081,132			-	
Sales and Charges		248,280			422,687	
Miscellaneous		<u>500,871</u>			<u>13,101</u>	
TOTAL RECEIPTS		<u>165,830,283</u>			<u>435,788</u>	
DISBURSEMENTS:						
Personal Services		13,648,855			335,919	
Operating		6,926,445			102,382	
Travel		579,959			561	
Capital Outlay		409,769			39,493	
Government Aid		<u>143,824,974</u>			-	
Total Budgeted	188,605,662	165,390,002	23,215,660	524,512	478,355	46,157
Under (Over Budgeted) (Note 10)	<u>4,170,508</u>	-	<u>4,170,508</u>	-	-	-
TOTAL DISBURSEMENTS	<u>192,776,170</u>	<u>165,390,002</u>	<u>27,386,168</u>	<u>524,512</u>	<u>478,355</u>	<u>46,157</u>
Excess of Receipts Over (Under) Disbursements		<u>440,281</u>			<u>(42,567)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			-	
Operating Transfers In		4,224,757			-	
Operating Transfers Out		(4,224,757)			-	
Deposit to State General Fund		-			-	
Net Distributive Activity		(7,500)			-	
Adjustments to Fund Balance		17,813			-	
Deposits from Other Agencies		<u>-</u>			<u>-</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>10,313</u>			<u>-</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		450,594			(42,567)	
FUND BALANCES, JULY 1, 1999		<u>2,608,725</u>			<u>267,332</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 3,059,319</u>			<u>\$ 224,765</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General, Cash, Federal, and Revolving Funds
 For the Year Ended June 30, 2000

	TOTALS		
	(MEMORANDUM ONLY)		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations		\$ 745,791,067	
Intergovernmental		165,365,214	
Sales and Charges		1,273,744	
Miscellaneous		<u>1,960,642</u>	
TOTAL RECEIPTS		<u>914,390,667</u>	
DISBURSEMENTS:			
Personal Services	\$ 22,705,276	21,420,582	\$ 1,284,694
Operating	17,417,700	12,636,402	4,781,298
Travel	1,056,822	918,557	138,265
Capital Outlay	707,644	708,953	(1,309)
Government Aid	<u>959,060,061</u>	<u>889,522,880</u>	<u>69,537,181</u>
Total Budgeted	1,000,947,503	925,207,374	75,740,129
Under (Over Budgeted) (Note 10)	<u>3,806,556</u>	-	<u>3,806,556</u>
TOTAL DISBURSEMENTS	<u>1,004,754,059</u>	<u>925,207,374</u>	<u>79,546,685</u>
Excess of Receipts Over (Under) Disbursements		<u>(10,816,707)</u>	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		9,048	
Operating Transfers In		22,932,746	
Operating Transfers Out		(12,532,680)	
Deposit to State General Fund		(24,829)	
Net Distributive Activity		(213,159)	
Adjustments to Fund Balance		17,813	
Deposits from Other Agencies		<u>1,019,583</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>11,208,522</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		391,815	
FUND BALANCES, JULY 1, 1999		<u>26,110,058</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 26,501,873</u>	

See Notes to Financial Statements.

(Concluded)

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Education are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Education (the Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board 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 Department 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 Department.

These financial statements present the Nebraska Department of Education. No component units were identified. The Nebraska Department of Education is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental, expendable trust, and agency fund types and the accrual basis for nonexpendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred.
- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

5000 - Revolving Funds - account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

7000 - Distributive Funds - account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds. No appropriation control is established for this fund type.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust and Distributive funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium. During fiscal year 2000, the Legislature passed a deficit appropriation bill which increased the allowable disbursement level in program 27 Department Administration.

All State budgetary disbursements for the general, cash, federal, and revolving fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

contained in the appropriations bill. Increases in total general, cash, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There are no annual budgets prepared for Trust and Distributed Funds, and, as a result, no budgetary comparisons are presented.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash, federal, and revolving funds on the Budgetary Statement are appropriately classified as a special revenue fund for Financial Statement purposes.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000, have been recorded at cost by the Department. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except for the Federal Projects Fund 4134 accounts 1112, 1117, 1121 and Federal Child Nutrition Program Fund 4148, were designated for investment during fiscal year 2000.
- G. Adjustments to Fund Balance.** Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a receipt or disbursement account.
- H. Net Distributive Activity.** Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.
- I. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

J. Compensated Absences. All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds (and amounts related to proprietary funds and non-expendable trust funds would be reflected separately in those funds). Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

K. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous. Receipts from sources not covered by other major categories.

L. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

Government Aid. Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

M. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as vendor deposits.

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters, and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each 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 individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Education's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgement against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **State Employees Retirement Plan (Plan) (Concluded)**

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$723,072 and the Department contributed \$1,127,993.

5. **Net Distributive Activity**

The Department's net distributive activity for the audit period consisted of: billing collections and payments to Iowa School for the Deaf; student loans and payback; loans between funds and programs; deposits of farm income from trust fund operations; and the receipt of federal money for Flood Control, Forest Reserve, and Public Grazing and the subsequent disbursement of these funds to the counties.

6. **Deposits from Other Agencies**

Deposits to School Technology Fund 2147 consisted of funds received by the Governor's State Energy Office in repayment of energy efficiency loans and credited to the School Technology Fund per Neb. Rev. Stat. Section 81-1634 R.R.S. 1999.

Deposits to Temporary School Fund 6136 consist of receipts collected by the following agencies and deposited to Fund 6136:

Department of Labor	\$ 4,750
Board of Educational Lands and Funds	19,843,943
Liquor Control Commission	<u>324,726</u>
Total	<u>\$ 20,173,419</u>

7. **Insurance Premium Tax – Distributive Funds**

In accordance with Neb. Rev. Stat. Section 77-913(3) R.S. Supp., 2000, the State Treasurer allocates sixty percent of Insurance Tax Funds to the Department of Education for distribution to school districts as equalization aid. The State Treasurer maintains this fund and the fund is shown in the State Treasurer's audit report. The Department of Education is responsible for an annual distribution of the funds allocated. During fiscal year ended June 30, 2000, the Department of Education distributed \$12,490,056.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. **Operating Transfers In/Out**

Operating Transfers include \$8,854,332 transferred to the Education Innovation Fund from the proceeds of the Nebraska State Lottery per Neb. Rev. Stat. Section 9-812, R.S. Supp., 1998; \$2,773,988 transferred to the Hardship Fund per 1999 Neb. Laws LB 314A, Section 1; \$10,228,265 transferred to the Temporary School Fund for investment income earned; and \$2,000,000 transferred to the Instructional Technology Fund and \$3,228,254 transferred from the Fund to the General Fund when the Fund was terminated per Neb. Rev. Stat. Section 79-1010.01 R.S. Supp., 2000. Operating transfers also include various transfers made within funds by the Department to account for various projects.

9. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
Land	\$ 43,001	\$ -	\$ -	\$ 43,001
Buildings	1,817,025	-	-	1,817,025
Equipment	5,581,553	459,794	425,149	5,616,198
	<u>\$ 7,441,579</u>	<u>\$ 459,794</u>	<u>\$ 425,149</u>	<u>\$ 7,476,224</u>

The Department of Education holds farm land in trust which was donated for the use and benefit of visually impaired students. The land is operated and managed by an outside corporation. Since the Department reports on a cash basis these amounts are not reflected in the financial statements. The value of the land as appraised by the management corporation is as follows:

William Estate Farms	Acres	Appraised
Farm A	184	\$ 250,000
Farm B	160	195,000
Farm C	322	262,400
Farm D	160	182,400
Total Appraised Land Value		<u>\$ 889,800</u>

10. **Under(Over) Budgeted**

Budgeted expenditures on the Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual are amounts reflected on the Department's Budget Status Report for fiscal year 2000. The budgeted amounts on the Budget Status report were set up at the beginning of the fiscal year based on knowledge at that time, and an

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. **Under(Over) Budgeted**

adjustment was not submitted. The General Fund difference is primarily due to a deficit appropriation. The cash and federal funds difference is due to the legislative appropriation based on anticipated appropriation needs two years in advance, while budgeted expenditures on the Budget Status Report are based on more current information available to management.

11. **Full Accountability of the General and Federal Funds**

Only cash transactions are reported on the financial statements. They do not show appropriations and authorizations to spend. To show the full accountability over the General and Federal funds the following schedules reflect appropriations and authorization to spend. Appropriations and authorization to spend do not represent cash transactions.

General Fund

Beginning (Reappropriated) Balance July 1, 1999	\$ 9,662,876
New Appropriations	747,483,952
Total Appropriations	<u>757,146,828</u>
Disbursements	(745,791,067)
Ending (Appropriations) Balance June 30, 2000	<u>\$ 11,355,761</u>

Federal Fund

Beginning Federal Grant Authorization July 1, 1999	\$ 64,506,559
New Federal Grant Authorization	185,227,412
Total Federal Grant Authorization	<u>249,733,971</u>
Disbursements	(162,986,296)
Other	498,765
Ending Federal Grant Authorization Balance June 30, 2000	<u>\$ 87,246,440</u> (1)

- (1) \$2,875,622 of this amount are expired Federal Grant Authorizations which represent grants with grant periods ending on or before June 30 and, therefore, are no longer available. These grants have not yet been removed from the official State accounting records pending formal review and authorization for removal by the Federal government.

NEBRASKA DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL SPECIAL REVENUE FUNDS
 June 30, 2000

	Department of Education Cash Fund 2130	Professional Practices Comm. Fund 2131	Pvt. Postsecond. Career School Fund 2132	Diagnostic Research Ctr. Fund 2135	Hardship Fund 2137	Teachers Cert. Cash Fund 2139	School Technology Fund 2147
<u>Assets</u>							
Cash in State Treasury	<u>\$ 902,787</u>	<u>\$ 270,623</u>	<u>\$ 37,644</u>	<u>\$ 58,816</u>	<u>\$ 2,922,068</u>	<u>\$ 447,617</u>	<u>\$ 195,590</u>
<u>Fund Balances</u>							
Unreserved, Undesignated	<u>\$ 902,787</u>	<u>\$ 270,623</u>	<u>\$ 37,644</u>	<u>\$ 58,816</u>	<u>\$ 2,922,068</u>	<u>\$ 447,617</u>	<u>\$ 195,590</u>

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL SPECIAL REVENUE FUNDS
 June 30, 2000

	Tuition Recovery Fund 2148	Education Innovation Fund 2149	Federal Projects Fund 4134	Child Nutrition Program Fund 4148	NDE Revolving Fund 5132	Totals Special Revenue Funds
<u>Assets</u>						
Cash in State Treasury	<u>\$ 154,047</u>	<u>\$ 18,169,658</u>	<u>\$ 2,839,968</u>	<u>\$ 219,351</u>	<u>\$ 224,765</u>	<u>\$ 26,442,934</u>
<u>Fund Balances</u>						
Unreserved, Undesignated	<u>\$ 154,047</u>	<u>\$ 18,169,658</u>	<u>\$ 2,839,968</u>	<u>\$ 219,351</u>	<u>\$ 224,765</u>	<u>\$ 26,442,934</u>

(Concluded)

NEBRASKA DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL TRUST AND AGENCY FUNDS
 June 30, 2000

	<u>Expendable Trust</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>			Total
	Dept of Educ Trusts Fund 6131	Temporary School Fund 6136	Public Grazing Fund 7131	Forest Reserve Fund 7132	Flood Control Fund 7133	Trust and Agency Funds
<u>Assets</u>						
Cash in State Treasury	\$ 772,425	\$ 9,177,947	\$ 537	\$ 35,293	\$ 160,985	\$ 10,147,187
Deposit with Vendors	<u>7,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,330</u>
Total Assets	<u><u>\$ 779,755</u></u>	<u><u>\$ 9,177,947</u></u>	<u><u>\$ 537</u></u>	<u><u>\$ 35,293</u></u>	<u><u>\$ 160,985</u></u>	<u><u>\$ 10,154,517</u></u>
<u>Fund Balances</u>						
Reserved For Vendor Deposits	\$ 7,330	\$ -	\$ -	\$ -	\$ -	\$ 7,330
Unreserved, Undesignated	<u>772,425</u>	<u>9,177,947</u>	<u>537</u>	<u>35,293</u>	<u>160,985</u>	<u>10,147,187</u>
Total Fund Balances	<u><u>\$ 779,755</u></u>	<u><u>\$ 9,177,947</u></u>	<u><u>\$ 537</u></u>	<u><u>\$ 35,293</u></u>	<u><u>\$ 160,985</u></u>	<u><u>\$ 10,154,517</u></u>

NEBRASKA DEPARTMENT OF EDUCATION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2000

	Department of Education Cash Fund 2130	Professional Practices Comm. Fund 2131	Pvt. Postsecond. Career School Fund 2132	School for the Visually Handi. Fund 2133	Diagnostic Research Ctr. Fund 2135	Hardship Fund 2137	Instruct. Technology Fund 2138	Teachers Cert. Cash Fund 2139
RECEIPTS:								
Intergovernmental	\$ 284,082	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and Charges	75,867	133,565	36,755	61,211	-	-	-	286,335
Miscellaneous	92,881	13,457	894	5,008	3,814	148,080	20,253	67,898
TOTAL RECEIPTS	<u>452,830</u>	<u>147,022</u>	<u>37,649</u>	<u>66,219</u>	<u>3,814</u>	<u>148,080</u>	<u>20,253</u>	<u>354,233</u>
DISBURSEMENTS:								
Personal Services	13,176	52,346	-	139,592	-	-	-	174,526
Operating	111,848	13,024	5	48,218	16,149	-	-	94,585
Travel	12,523	10,148	-	83	-	-	-	1,270
Capital Outlay	10,893	705	-	42,421	1,165	-	-	4,924
Government Aid	3,875	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	<u>152,315</u>	<u>76,223</u>	<u>5</u>	<u>230,314</u>	<u>17,314</u>	<u>-</u>	<u>-</u>	<u>275,305</u>
Excess of Receipts Over (Under) Disbursements	<u>300,515</u>	<u>70,799</u>	<u>37,644</u>	<u>(164,095)</u>	<u>(13,500)</u>	<u>148,080</u>	<u>20,253</u>	<u>78,928</u>
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	198,037	-	-	-	-	2,773,988	2,000,000	-
Operating Transfers Out	(1,606)	-	-	(196,431)	-	-	(3,228,254)	-
Net Distributive Activity	(205,193)	-	-	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	-	-	-	-
Deposits from other Agencies	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,762)</u>	<u>-</u>	<u>-</u>	<u>(196,431)</u>	<u>-</u>	<u>2,773,988</u>	<u>(1,228,254)</u>	<u>-</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	291,753	70,799	37,644	(360,526)	(13,500)	2,922,068	(1,208,001)	78,928
FUND BALANCE, JULY 1, 1999	<u>611,034</u>	<u>199,824</u>	<u>-</u>	<u>360,526</u>	<u>72,316</u>	<u>-</u>	<u>1,208,001</u>	<u>368,689</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 902,787</u>	<u>\$ 270,623</u>	<u>\$ 37,644</u>	<u>\$ -</u>	<u>\$ 58,816</u>	<u>\$ 2,922,068</u>	<u>\$ -</u>	<u>\$ 447,617</u>

(Continued)

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2000**

	School Technology Fund 2147	Tuition Recovery Fund 2148	Education Innovation Fund 2149	Federal Letter of Credit Fund 4000	Federal Projects Fund 4134	Child Nutrition Program Fund 4148	NDE Revolving Fund 5132	Total Special Revenue Funds
RECEIPTS:								
Intergovernmental	\$ -	\$ -	\$ -	\$ 162,487,531	\$ 2,593,601	\$ -	\$ -	165,365,214
Sales and Charges	-	-	-	-	248,280	-	422,687	1,264,700
Miscellaneous	12,238	29,509	1,045,901	498,765	-	2,106	13,101	1,953,905
TOTAL RECEIPTS	12,238	29,509	1,045,901	162,986,296	2,841,881	2,106	435,788	168,583,819
DISBURSEMENTS:								
Personal Services	-	-	185,469	12,242,807	1,406,048	-	335,919	14,549,883
Operating	-	5	71,159	6,160,234	766,211	-	102,382	7,383,820
Travel	-	-	15,880	536,700	43,259	-	561	620,424
Capital Outlay	-	-	1,572	300,705	109,064	-	39,493	510,942
Government Aid	1,107,917	-	11,414,472	143,745,850	79,124	-	-	156,351,238
TOTAL DISBURSEMENTS	1,107,917	5	11,688,552	162,986,296	2,403,706	-	478,355	179,416,307
Excess of Receipts Over (Under) Disbursements	(1,095,679)	29,504	(10,642,651)	-	438,175	2,106	(42,567)	(10,832,488)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	-	13,735,964	-	4,224,757	-	-	22,932,746
Operating Transfers Out	-	-	(4,881,632)	-	(4,224,757)	-	-	(12,532,680)
Net Distributive Activity	-	-	-	-	(7,500)	-	-	(212,693)
Adjustment to Fund Balance	-	-	-	-	17,813	-	-	17,813
Deposits from other Agencies	1,019,583	-	-	-	-	-	-	1,019,583
TOTAL OTHER FINANCING SOURCES (USES)	1,019,583	-	8,854,332	-	10,313	-	-	11,224,769
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(76,096)	29,504	(1,788,319)	-	448,488	2,106	(42,567)	392,281
FUND BALANCE, JULY 1, 1999	271,686	124,543	19,957,977		2,391,480	217,245	267,332	26,050,653
FUND BALANCE, JUNE 30, 2000	\$ 195,590	\$ 154,047	\$ 18,169,658	\$ -	\$ 2,839,968	\$ 219,351	\$ 224,765	\$ 26,442,934

(Concluded)

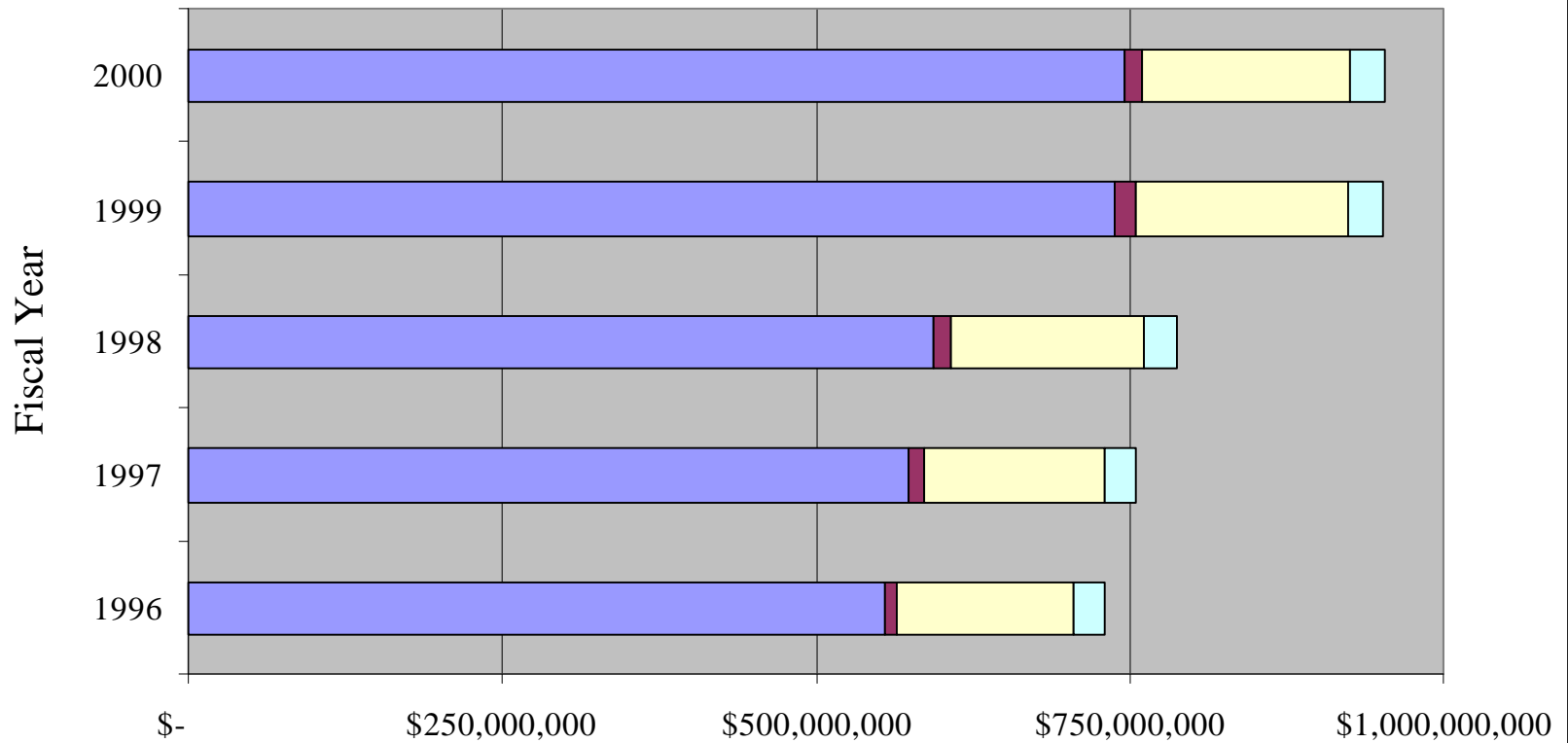
NEBRASKA DEPARTMENT OF EDUCATION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
TRUST AND AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2000

	Expendable Trust	Nonexpendable Trust	Agency			Total Trust & Agency Funds
	Dept of Educ Trusts Fund 6131	Temporary School Fund 6136	Public Grazing Fund 7131	Forest Reserve Fund 7132	Flood Control Fund 7133	
RECEIPTS:						
Intergovernmental	\$ 2,172	\$ -	\$ -	\$ -	\$ -	\$ 2,172
Miscellaneous	148,985	689,775	-	-	-	838,760
TOTAL RECEIPTS	151,157	689,775	-	-	-	840,932
DISBURSEMENTS:						
Operating	85,334	-	-	-	-	85,334
Travel	-	-	-	-	-	-
Capital Outlay	84,622	-	-	-	-	84,622
Government Aid	527	28,441,957	-	-	-	28,442,484
TOTAL DISBURSEMENTS	170,483	28,441,957	-	-	-	28,612,440
Excess of Receipts Over (Under) Disbursements	(19,326)	(27,752,182)	-	-	-	(27,771,508)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	-	10,028,265	-	-	-	10,028,265
Net Distributive Activity	-	-	(41)	1,069	(10,698)	(9,670)
Deposits by Other Agencies	-	20,173,419	-	-	-	20,173,419
TOTAL OTHER FINANCING SOURCES (USES)	-	30,201,684	(41)	1,069	(10,698)	30,192,014
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(19,326)	2,449,502	(41)	1,069	(10,698)	2,420,506
FUND BALANCE, JULY 1, 1999	799,081	6,728,445	578	34,224	171,683	7,734,011
FUND BALANCE, JUNE 30, 2000	\$ 779,755	\$ 9,177,947	\$ 537	\$ 35,293	\$ 160,985	\$ 10,154,517

NEBRASKA DEPARTMENT OF EDUCATION

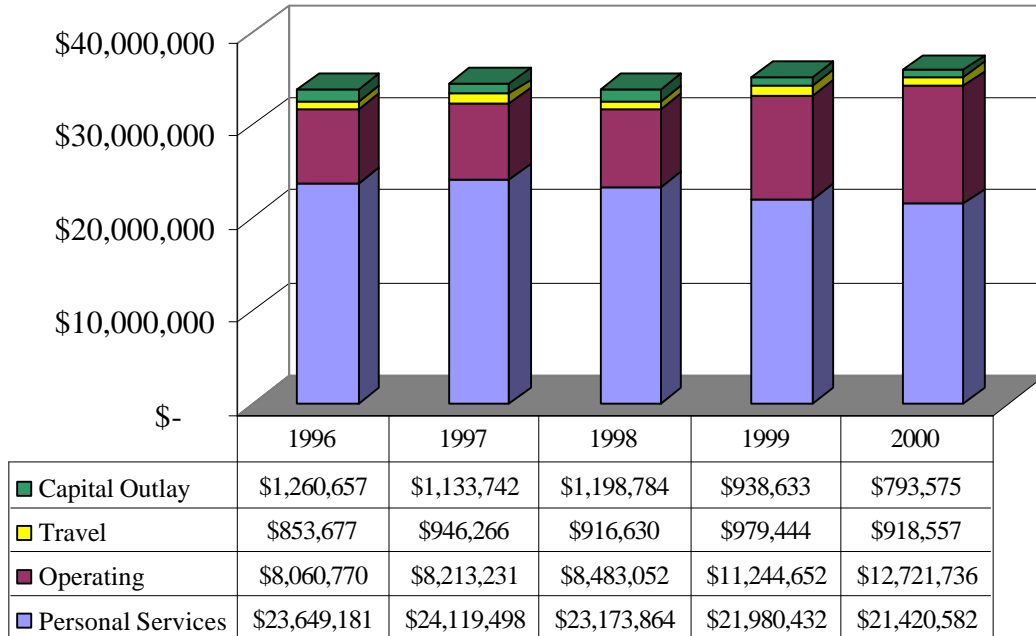
Disbursements by Fund Type
Fiscal Years 1996-2000



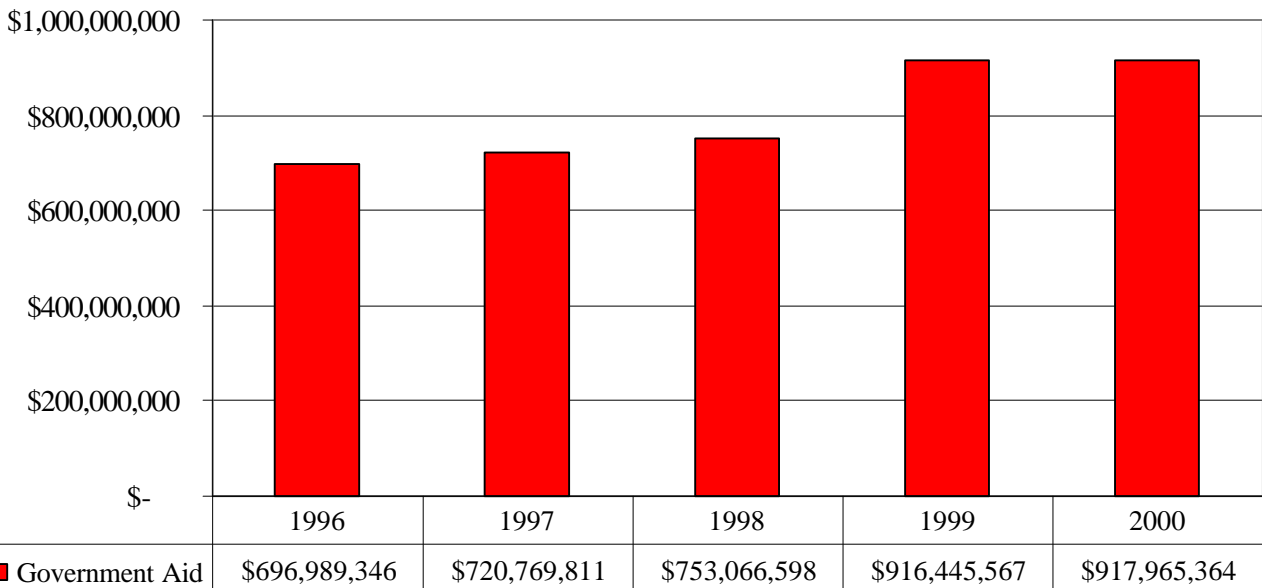
	1996	1997	1998	1999	2000
Trust Funds	\$25,396,364	\$25,579,494	\$25,807,829	\$28,189,353	\$28,612,440
Federal Funds	\$141,589,198	\$143,143,931	\$153,061,873	\$167,674,359	\$165,390,002
Cash & Revolving	\$8,160,268	\$13,330,278	\$13,779,955	\$17,201,069	\$14,026,305
General Fund	\$555,667,801	\$573,128,845	\$594,189,271	\$738,523,947	\$745,791,067

**NEBRASKA DEPARTMENT OF EDUCATION
DISBURSEMENTS BY MAJOR ACCOUNT CODE**
Fiscal Years 1996-2000

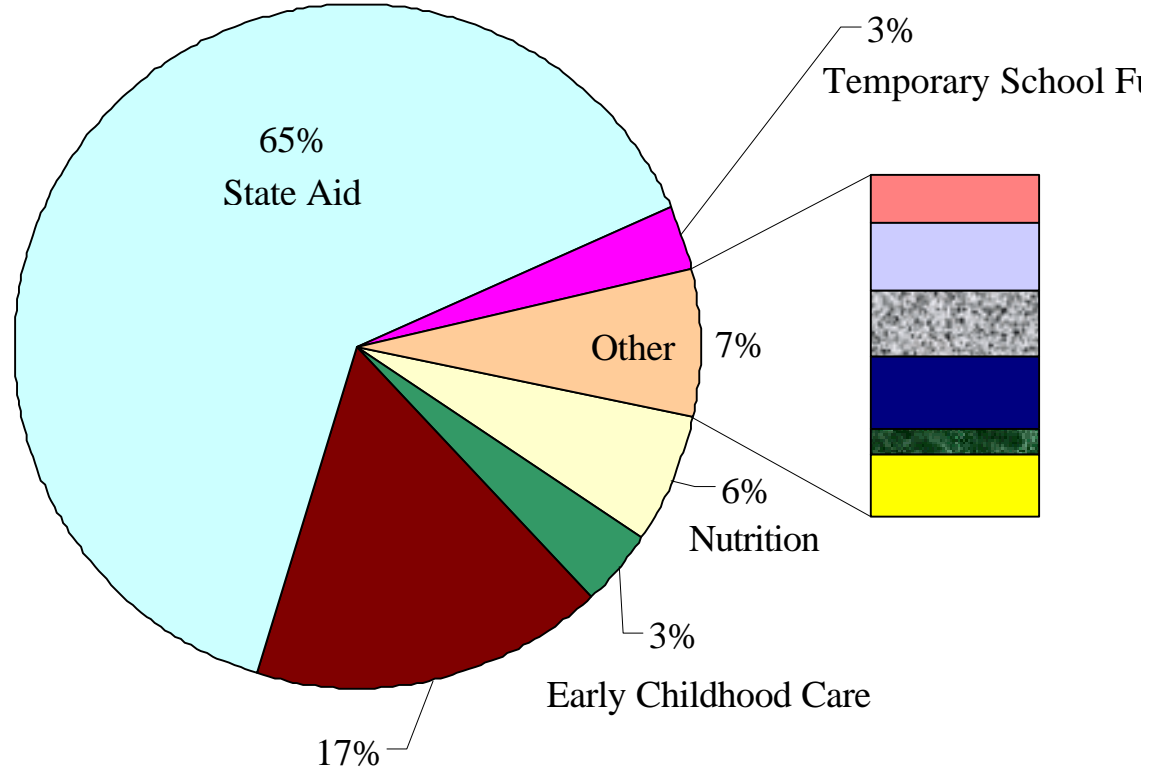
DISBURSEMENTS OTHER THAN AID



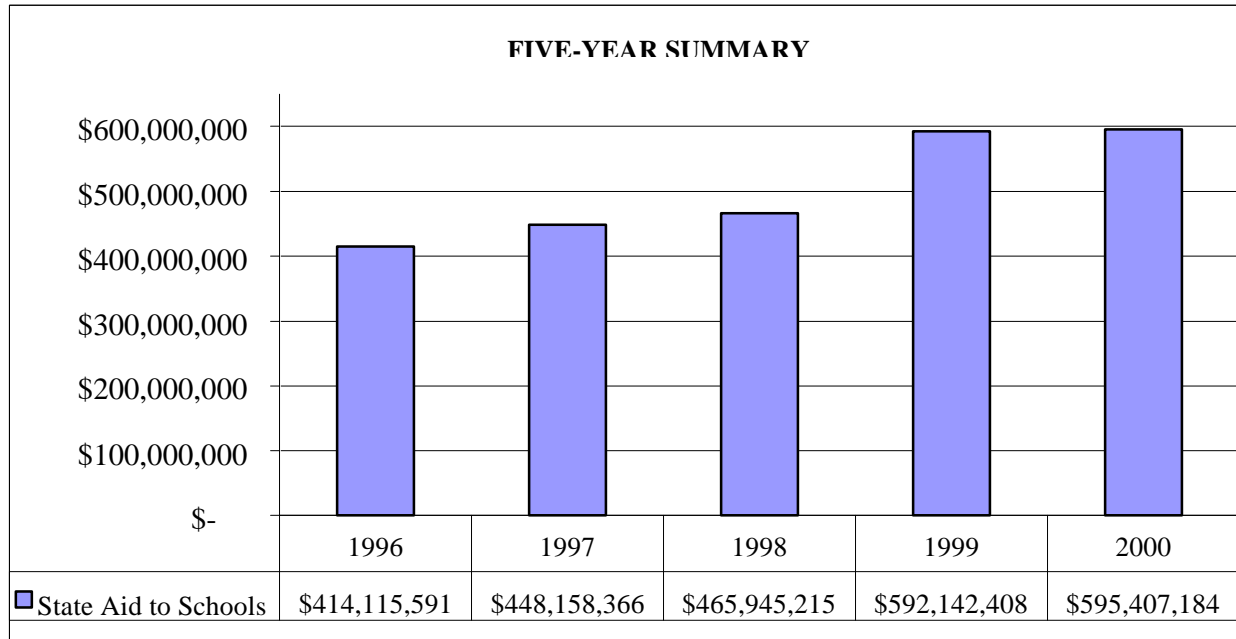
AID PAYMENTS



NEBRASKA DEPARTMENT OF EDUCATION
AID DISBURSEMENTS BY PROGRAM
Fiscal Year Ended June 30, 2000



**NEBRASKA DEPARTMENT OF EDUCATION
STATE AID TO SCHOOLS**



State Education Aid to Schools is determined by a formula in which calculated needs less calculated resources equals State Equalization Aid. This amount is further adjusted for Items such as Net Option Funding. Allocated Income Tax Funds, "Lop Off," Stabilization, and Minimum Levy adjustments, and District Reorganization Incentives. Nebraska State Statutes Sections 79-1001 through 79-1033 detail State Aid provisions. An example of the calculation for the Omaha school district fiscal year 2000 is included on the following page.

Districts receiving over \$10 million during fiscal year ended June 30, 2000:

County	District	School	State Aid	Formula Students	Average per Formula Student
Douglas	1	Omaha	\$ 102,227,756	43,002	\$ 2,377
Lancaster	1	Lincoln	48,299,916	30,071	\$ 1,606
Douglas	17	Millard	46,761,576	18,751	\$ 2,494
Sarpy	1	Bellevue	29,335,775	8,956	\$ 3,276
Sarpy	27	Papillon-LaVista	20,800,346	7,617	\$ 2,731
Hall	2	Grand Island	18,104,587	7,392	\$ 2,449
Lincoln	1	North Platte	11,445,819	4,523	\$ 2,531
			276,975,775	120,312	\$ 2,302
Remaining Schools			318,431,409	164,516	\$ 1,936
Total State Aid			\$ 595,407,184	284,828	\$ 2,090

NEBRASKA DEPARTMENT OF EDUCATION
STATE AID CALCULATION
Fiscal Year Ended June 30, 2000

School Finance & Organization Services 1999-00 State Aid Certification OMAHA PUBLIC SCHOOLS (28-0001) System Cost Grouping: STANDARD (\$4,311.48)

CALCULATION OF DISTRICT WEIGHTED FORMULA STUDENTS

Grade Range	Fall Membership	ADM/FM Ratio	Contracted Out	Formula Students	Weighting Factor	Weighted Formula Students
K	(3,668 x	0.9763468727)	+	0.00 =	3,581.2403 x	0.5 = 1,790.6202
FDK-6	(20,900 x	0.9763468727)	+	12.00 =	20,417.6496 x	1.0 = 20,417.6496
7-8	(6,751 x	0.9763468727)	+	19.00 =	6,610.3177 x	1.2 = 7,932.3813
9-12	(12,641 x	0.9763468727)	+	51.00 =	12,393.0008 x	1.4 = 17,350.2011
Total Weighted Formula Students for District 28-0001:						47,490.8522

SYSTEM FORMULA NEEDS CALCULATION

Weighted Formula Students	47,490.8522
+ Limited English Proficiency Factor (1,775.00 x .25)	443.7500
+ Free Lunch/Poverty Factor (Based on 19,606.00 Students)	3,624.1841
+ Indian ADA Factor (0.00 x .25)	-
+ Extreme Remoteness Factor (0.00 x .125)	-
System Adjusted Weighted Formula Students	51,558.7863
x Cost Group Cost	4,331.4774
Subtotal	223,325,717.51
+ Transportation Allowance	8,085,343.20
+ Special Education Allowance	20,723,291.95
Total System Formula Needs	252,134,352.66

SYSTEM FORMULA RESOURCES CALCULATION

Yield From Local Effort Rate	107,406,857.97
Net Option Funding	-
Allocated Income Tax Funds	18,077,299.21
Other Actual Receipts	43,285,315.52
Minimum Levy Penalty	-
Total System Formula Resources	168,769,472.70

SYSTEM STATE AID CALCULATION

Equalization Aid Due System	83,364,879.96
Net Option Funding	-
Allocated Income Tax Funds	18,077,299.21
Lop Off	-
Stabilization Factor	-
Non-Equalized Minimum Levy Penalty	-
Small School Stabilization Adjustment	-
District Reorganization Incentive Payment	-
Total System State Aid Calculated	101,442,179.17
Recapture of Prior Year Deficiencies	-
Prior Year (1998-99) State Aid Correction	785,577.06
Total System State Aid	102,227,756.23

NEBRASKA DEPARTMENT OF EDUCATION

STATE AID TO SCHOOLS

To determine system formula needs, school districts are grouped into sparse, very sparse, and standard cost groupings. Each grouping has a formula cost per student determined which is used to calculate system need.

Grouping	Formula Cost per Student	Number of Districts In Grouping	Number of Formula Students	Aid Distributed	Average Aid Per Student
Standard	\$ 4,331.47	221	265,916	\$ 552,422,583	\$ 2,077
Sparse	\$ 5,069.80	41	13,061	\$ 31,606,663	\$ 2,420
Very Sparse	\$ 5,572.47	22	5,851	\$ 11,377,938	\$ 1,945
		284	284,828	\$ 595,407,184	\$ 2,090

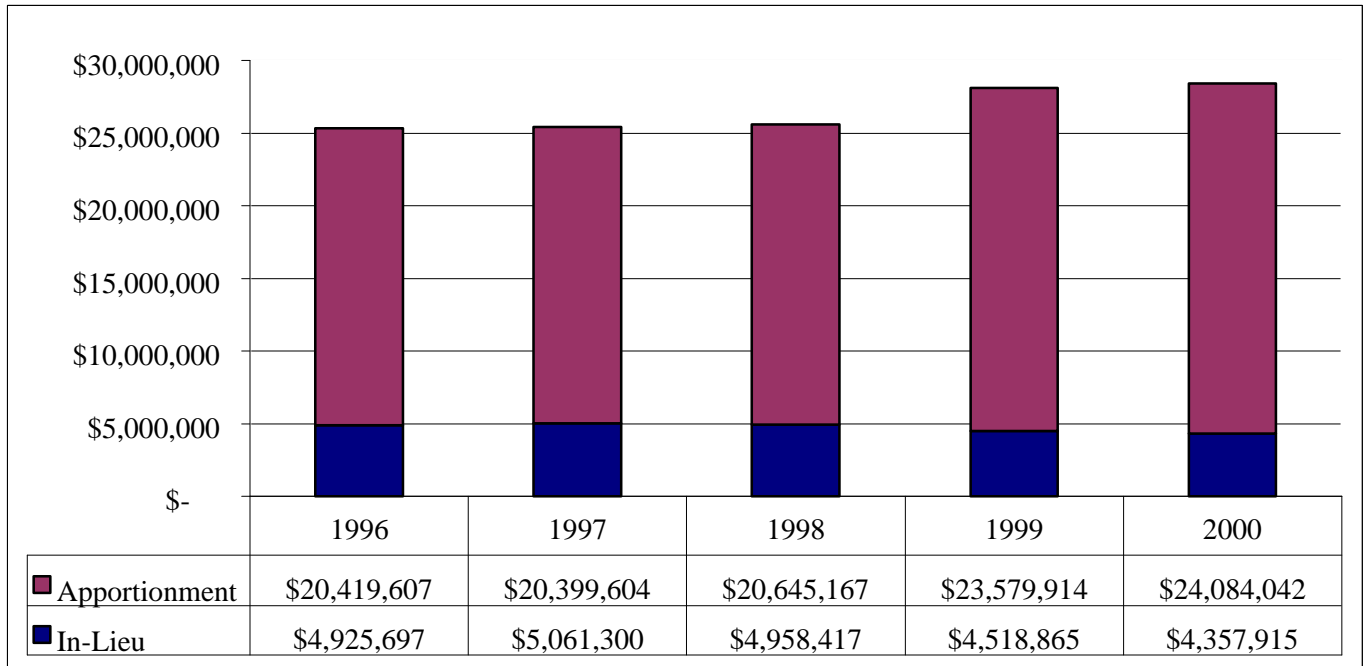
In Fiscal year 2000 the following schools were included in the sparse and very sparse groupings:

Very Sparse					
County	District	Schools	County	District	Schools
Arthur	500	Arthur County High	Hayes	79	Hayes Center
Banner	1	Banner County Public	Hooker	1	Mullen Public
Blaine	71	Sandhills Public	Keya Paha	100	Keya Paha County
Box Butte	10	Hemingford Public	Lincoln	565	Wallace
Cherry	6	Valentine Rural	Logan	501	Stapleton
Cherry	30	Cody-Kilgore	McPherson	90	McPherson County
Cheyenne	9	Potter-Dix	Rock	100	Rock County
Custer	89	Arnold	Sheridan	4	Gordon
Dundy	117	Dundy County	Sioux	500	Sioux County
Garden	1	Garden County	Thomas	1	Thedford Rural
Grant	1	Hyannis	Wheeler	45	Wheeler Central

Sparse					
County	District	Schools	County	District	Schools
Boone	6	Cedar Rapids	Garfield	100	Burwell Jr-Sr High
Boyd	36	Lynch	Greeley	7	Greeley
Brown	10	Ainsworth	Greeley	43	Wolbach
Chase	15	Chase County High	Greeley	55	Spalding
Chase	536	Wauneta-Palisade	Hitchcock	8	Stratton
Cheyenne	3	Leyton	Hitchcock	11	Trenton
Custer	15	Anslemo-Merna	Holt	25	West Holt Rural
Custer	44	Ansley	Holt	137	Chambers
Custer	84	Sargent	Keith	6	Ogallala Public
Custer	180	Callaway	Kimball	1	Kimball Public
Dawes	2	Chadron	Loup	25	Loup County
Dawes	71	Crawford	Morrill	63	Bridgeport
Dawson	101	Sumner-Eddyville-Miller	Pawnee	69	Lewiston Consolidated
Deuel	1	Chappell	Perkins	1	Grant
Deuel	95	South Platte	Perkins	112	Wheatland
Fillmore	54	Shickley	Sheridan	6	Rushville
Franklin	506	Franklin	Sherman	1	Loup City
Frontier	95	Eustis-Farnam	Sherman	15	Litchfield
Furnas	18	Arapahoe	Valley	21	Arcadia
Furnas	540	Southern Valley	Webster	2	Red Cloud
			Webster	501	Guide Rock

All Remaining School Districts are in the Standard Cost Grouping

NEBRASKA DEPARTMENT OF EDUCATION
TEMPORARY SCHOOL FUND
Fiscal Years 1996-2000



The Temporary School Fund consists of money received through the Board of Educational Lands and Funds from the rental of school lands and interest earned on the Permanent School Fund. This money is deposited with the State Treasurer, who certifies the balance to the Commissioner of Education. The money is distributed first to all school districts where there is School or saline land within the district's boundaries as an amount in lieu of tax money that would be raised if such lands were taxable. The remaining amount is apportioned pro rata to all school districts according to the number of children ages five through eighteen in each district.

	1996	1997	1998	1999	2000
Apportionment	\$ 20,419,607	\$ 20,399,604	\$ 20,645,167	\$ 23,579,914	\$ 24,084,042
Total School Age Census (5-18)	357,324	357,631	362,576	377,617	360,962
Per Pupil Factor	\$ 57.15	\$ 57.04	\$ 56.94	\$ 62.44	\$ 66.72

Per the Board of Educational Lands and Funds Biennial Report, the K-12 School Trust Portfolio was 56% Land (\$380.4 million) and 44% Stocks and Bonds (\$300.1 million) as of June 30, 2000.

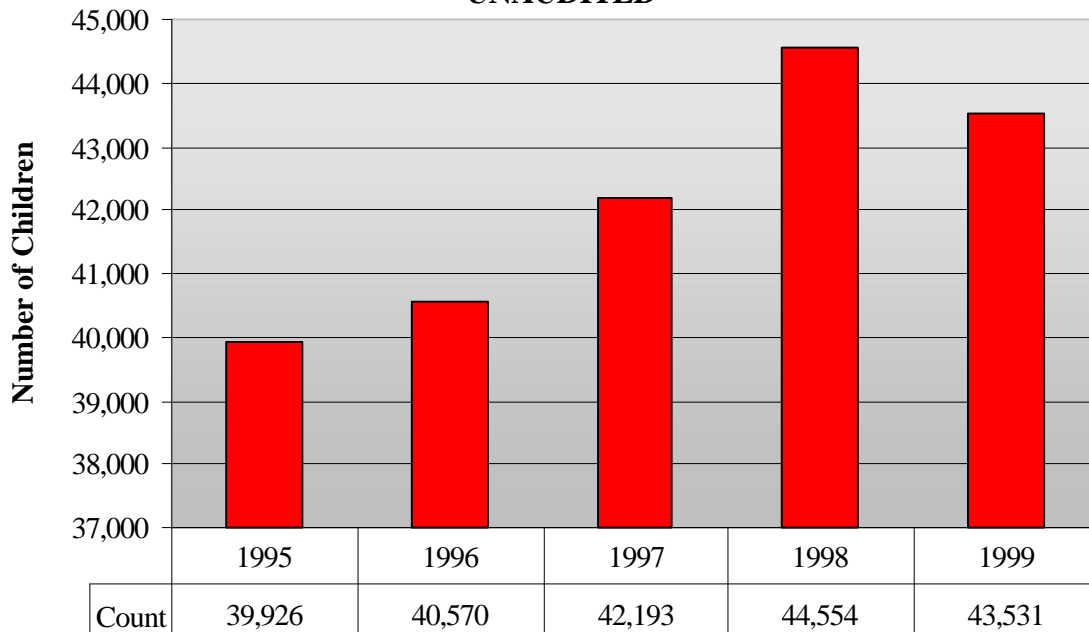
As of June 30, 2000

[illegible]

- (1) Includes all sources and times of acquisition. The original federal grant of Sections 16 and 36 and in lieu selections (Common School Trust Lands) was, for example, the equivalent of 2,797,520 acres.
- (2) Includes acres condemned and paid for pursuant to federal or state authority for roadways and other public uses.
- (3) Analysis using valuation data of the University of Nebraska, Department of Agricultural Economics, established that Nebraska's K-12 School Trust Lands had a current market value of approximately \$370.2 million for 1.467 million acres as of June 30, 1999, and \$380.4 million for 1.445 million acres as of June 30, 2000.

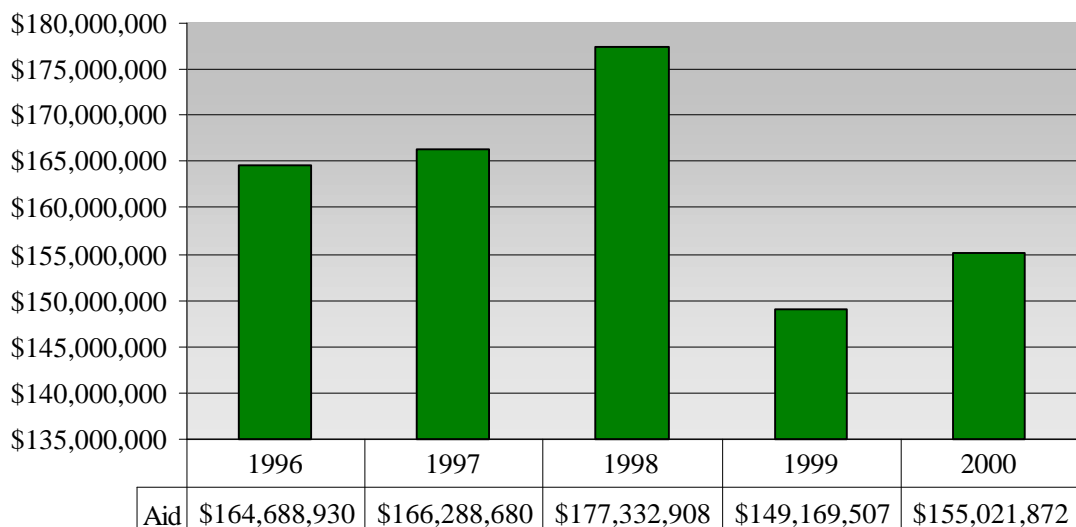
NEBRASKA DEPARTMENT OF EDUCATION

Total Special Education Child Count
(as of December 1)
UNAUDITED



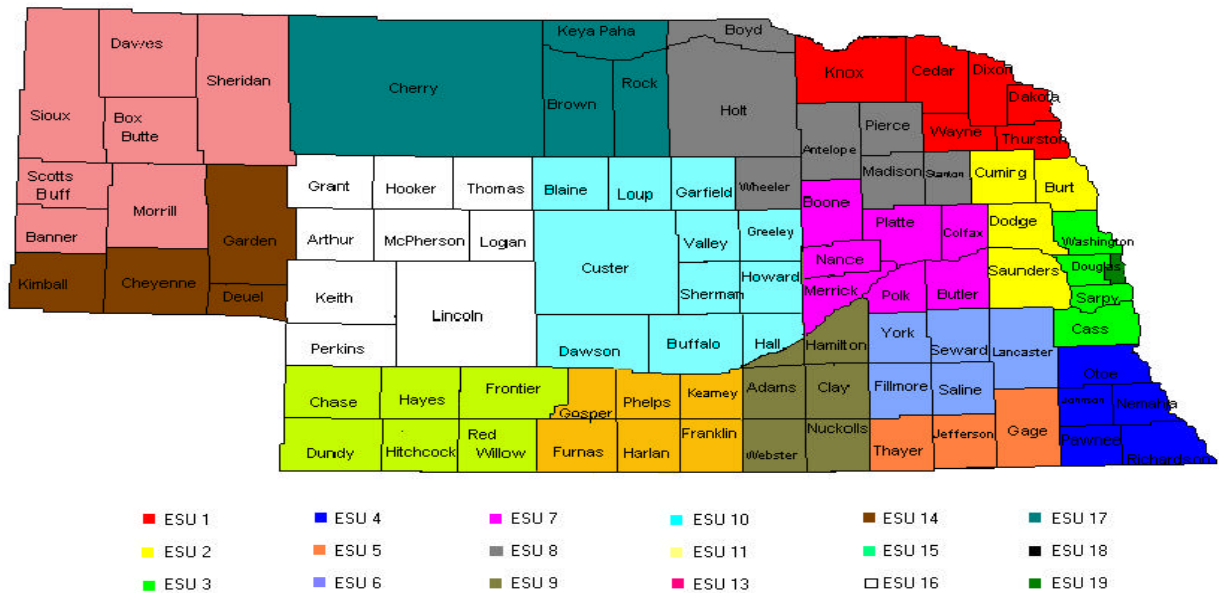
Source: Department of Education "Special Education Statistical Reports" (1995-1999).

Special Populations Aid Disbursements
Fiscal Year



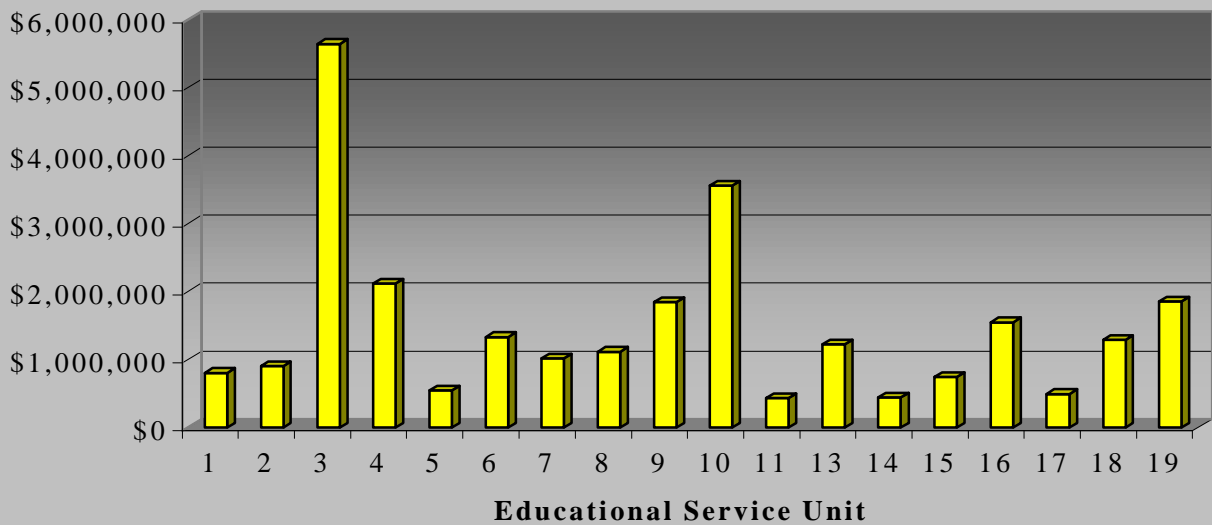
NEBRASKA DEPARTMENT OF EDUCATION

Educational Service Unit Map



Map shows boundaries of ESU's by county only. However, school district participation determines actual ESU boundaries. Some districts have removed themselves from one ESU and joined another, while others have opted out of ESU participation altogether. Also, ESU 12 and ESU 13 merged in 1998, and the merged unit is ESU 13.

Disbursements to Educational Service Units for fiscal year ended June 30, 2000



Includes all payments to ESU's from the Department, excluding Title I, as these payments are passed through to the school districts.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

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

We have audited the financial statements of the Nebraska Department of Education as of and for the year ended June 30, 2000, and have issued our report thereon dated February 7, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Education. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Education in the Comments Section of this report as Comment Number 1 (Disbursements).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Education in the Comments Section of this report as Comment Number 1 (Disbursements), Comment Number 2 (Student Counts), and Comment Number 3 (Fixed Assets).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA
Manager

February 7, 2001