

**AUDIT REPORT  
OF THE  
NEBRASKA RAILWAY COUNCIL  
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA RAILWAY COUNCIL

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# NEBRASKA RAILWAY COUNCIL

## BACKGROUND

The Nebraska Railway Council administers programs and funds for the acquisition, rehabilitation, and operation of light-density rail lines pursuant to State law and the Federal Rail Revitalization Act. All planning functions for participation in the federal act must be performed by a State agency designated by the Governor. Although the Council is an independent body, the Nebraska Department of Roads provides planning functions and staff support.

Eight Council members are appointed to four-year terms by the Governor and approved by the Legislature. The Department of Roads Director-State Engineer serves as an ex officio member. The Council members shall have an interest in and knowledge of railroads and railroad-related functions. Council members consist of:

- ◆ a light-density rail line shipper;
- ◆ a railroad management employee;
- ◆ a Public Service Commissioner;
- ◆ a railroad maintenance-of-way employee;
- ◆ a Department of Economic Development representative;
- ◆ a Department of Agriculture representative; and
- ◆ two members of the public; one with private or public finance experience and one with marketing experience.

## MISSION STATEMENT

To promote adequate and efficient rail service on light-density rail lines and rail service oriented enterprises related to light-density rail line operators.

## NEBRASKA RAILWAY COUNCIL

### COMMENT AND RECOMMENDATION

During our audit of the Nebraska Railway Council, we noted a certain matter which is presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

#### **1. Annual Report**

Neb. Rev. Stat. Section 74-1415.01(9) R.R.S. 1996 requires the Council to submit an annual report to the Legislature detailing investments and purchases, including a statement for each project.

The Council last submitted a report in March 1997 for the calendar year ended December 1996.

We recommend the Council submit an annual report in accordance with Statute.

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Council to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The Council declined to respond.

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

STATE OF NEBRASKA  
Auditor of Public Accounts

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

**Kate Witek**  
State Auditor  
[kwitek@mail.state.ne.us](mailto:kwitek@mail.state.ne.us)

NEBRASKA RAILWAY COUNCIL

**INDEPENDENT AUDITORS' REPORT**

We have audited the financial statements of the Nebraska Railway Council 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 Council'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 Railway Council, 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 Railway Council 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 March 30, 2001, on our consideration of the Nebraska Railway Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

March 30, 2001

Pat Reding, CPA  
Manager

NEBRASKA RAILWAY COUNCIL  
STATEMENT OF ASSETS AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
ALL FUND TYPES

June 30, 2000

	Governmental Fund Type
	<u>Special Revenue</u>
<u>Assets</u>	
Cash in State Treasury	<u>\$ 2,377,551</u>
<u>Fund Balances</u>	
Unreserved, Undesignated	<u>\$ 2,377,551</u>

See Notes to Financial Statements.

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

	<u>Governmental Fund Types</u>		<b>Totals</b> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
RECEIPTS:			
Appropriations	\$ 192	\$ -	\$ 192
Miscellaneous	-	166,733	166,733
TOTAL RECEIPTS	<u>192</u>	<u>166,733</u>	<u>166,925</u>
DISBURSEMENTS:			
Operating	<u>192</u>	-	<u>192</u>
TOTAL DISBURSEMENTS	<u>192</u>	<u>-</u>	<u>192</u>
Excess of Receipts Over Disbursements	-	166,733	166,733
FUND BALANCE, JULY 1, 1999	<u>-</u>	<u>2,210,818</u>	<u>2,210,818</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ -</u>	<u>\$ 2,377,551</u>	<u>\$ 2,377,551</u>

See Notes to Financial Statements.

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
 General and Revolving Funds  
 For the Year Ended June 30, 2000

	GENERAL FUND			REVOLVING FUND			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:									
Appropriations		\$ 192			\$ -			\$ 192	
Miscellaneous		-			166,733			166,733	
TOTAL RECEIPTS		<u>192</u>			<u>166,733</u>			<u>166,925</u>	
DISBURSEMENTS:									
Personal Services	\$ 516	-	\$ 516	\$ -	-	\$ -	\$ 516	-	\$ 516
Operating	3,426	192	3,234	-	-	-	3,426	192	3,234
Travel	2,709	-	2,709	-	-	-	2,709	-	2,709
Government Aid	-	-	-	500,000	-	500,000	500,000	-	500,000
TOTAL DISBURSEMENTS	<u>6,651</u>	<u>192</u>	<u>6,459</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>506,651</u>	<u>192</u>	<u>506,459</u>
Excess of Receipts Over Disbursements		-			166,733			166,733	
FUND BALANCES, JULY 1, 1999		<u>-</u>			<u>2,210,818</u>			<u>2,210,818</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ -</u>			<u>\$ 2,377,551</u>			<u>\$ 2,377,551</u>	

See Notes to Financial Statements.

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

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

- A. **Reporting Entity.** The Nebraska Railway Council (Council) is an entity established under and governed by the laws of the State of Nebraska. By statute, the Council is “a body politic and corporate, not a State agency, but an independent instrumentality.” Although the Council is not a State agency, the Council is part of the primary government in the State of Nebraska’s reporting entity. The Council receives monies appropriated by the Nebraska Legislature to implement the Nebraska Light-Density Rail Line Assistance Act. As such, the Council is exempt from State and Federal income taxes. The financial statements include all funds of the Council. The Council has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Council, or the significance of their relationship with the Council 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 Council 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 Council.

These financial statements present the Nebraska Railway Council. No component units were identified. The Nebraska Railway Council is part of the primary government for the State of Nebraska’s reporting entity.

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Council are maintained and the Council’s financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Assets and Fund Balances for all funds of the Council. This differs from governmental generally accepted accounting principles (GAAP) which requires all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Under the cash receipts and disbursements basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental 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.

- C. **Fund Accounting.** The accounts and records of the Council 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 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.

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 Council are:

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

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

- 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 Council and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

All State budgetary disbursements for the general 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 contained in the appropriations bill. Increases in total general and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

The Council 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.

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Council'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 Council'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.

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

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

- E. Fixed Assets.** The Council uses facilities and equipment provided by the Nebraska Department of Roads. These assets are included in the State's general fixed assets account group, which is reported in the State of Nebraska Comprehensive Annual Financial Report.
- 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 Council were designated for investment during fiscal year 2000.
- G. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Council are:

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**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.

**Miscellaneous.** Receipts from sources not covered by other major categories, such as loan repayments and investment interest.

**H. Disbursements.** The major account title and description as established by the Nebraska Accounting System used by the Council is:

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

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. **Loans Receivable**

The Nebraska Railway Council makes loans to rail carriers for the acquisition, revitalization, or operation, of light-density rail lines within Nebraska. Loan terms are negotiated between the Council and the carrier.

The Council has one light-density rail line loan outstanding at June 30, 2000. Scheduled repayments are as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30, 2001	\$ 29,509	\$ 5,012	\$ 34,521
June 30, 2002	30,689	3,832	34,521
June 30, 2003	31,917	2,604	34,521
June 30, 2004	33,193	1,328	34,521
<b>TOTAL</b>	<b>\$ 125,308</b>	<b>\$ 12,776</b>	<b>\$ 138,084</b>

NEBRASKA RAILWAY COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Full Accountability of the General Fund**

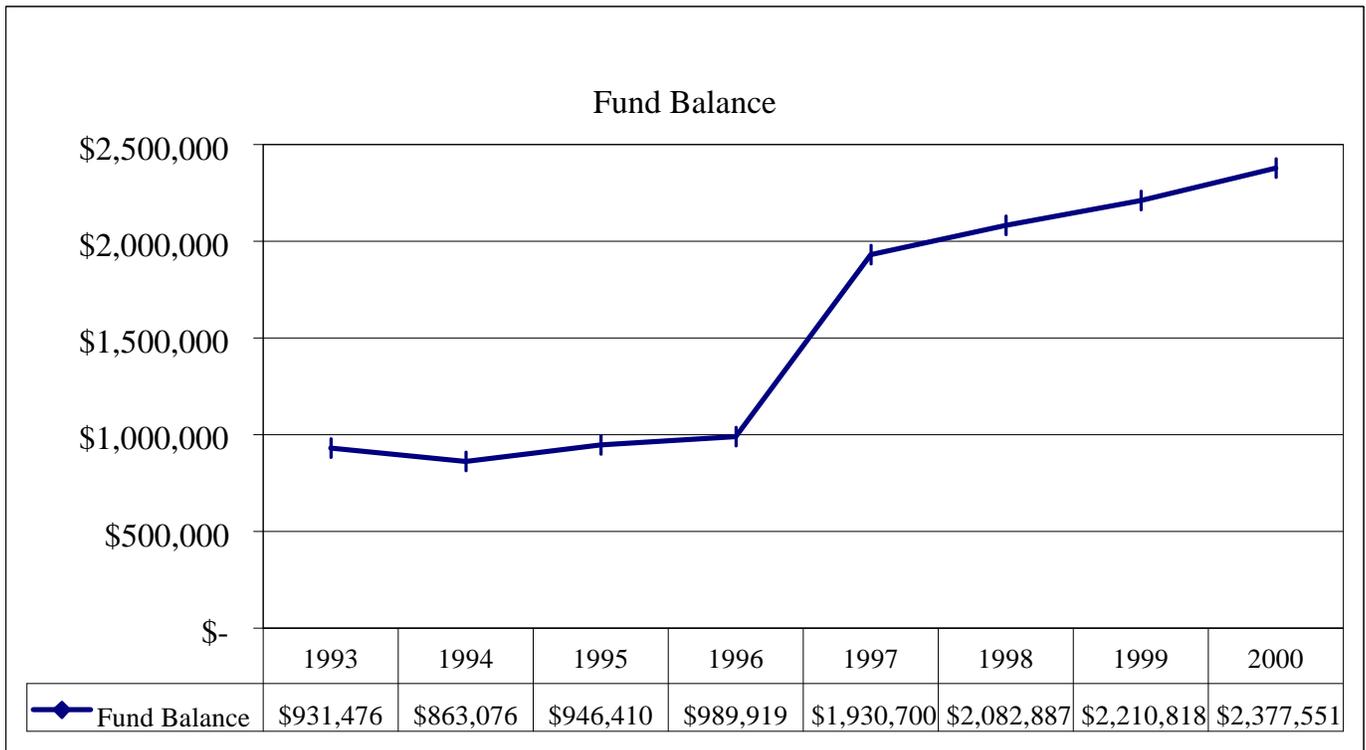
Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedule reflects appropriations. Appropriations do not represent cash transactions.

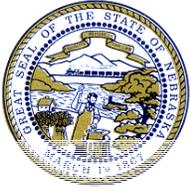
<b>General Fund</b>	
Beginning (Reappropriated) Balance July 1, 1999	\$ -
New Appropriations	6,651
Total Appropriations	<u>6,651</u>
Disbursements	<u>192</u>
Ending (Appropriations) Balance June 30, 2000	<u>\$ 6,459</u>

**NEBRASKA RAILWAY COUNCIL**  
**LOAN AGREEMENT AND FUND BALANCE**  
 June 30, 1993 through June 30, 2000

**Loan Agreement**

<u>Date of Agreement</u>	<u>Railway</u>	<u>Loan Amount</u>	<u>Repayment Terms</u>
February 18, 1994	Nebraska Central Railroad	\$ 279,995	Principal plus interest at 4% repaid in ten equal annual installments





P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

**Kate Witek**  
State Auditor  
[kwitek@mail.state.ne.us](mailto:kwitek@mail.state.ne.us)

NEBRASKA RAILWAY COUNCIL  
**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 Railway Council as of and for the year ended June 30, 2000, and have issued our report thereon dated March 30, 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 Railway Council. 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 Railway Council'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 a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Railway Council in the Comments Section of this report as Comment Number 1 (Annual Report).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Railway Council'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.

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.

March 30, 2001

Pat Reding, CPA  
Manager