

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

NEBRASKA DEPARTMENT OF WATER RESOURCES

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Summary of Comments	3
Comments and Recommendations	4
Financial Section	
Independent Auditors' Report	5 - 6
Financial Statements:	
Combined Statement of Assets and Fund Balances and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	7
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	8
Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual - General, Cash and Federal Funds	9 - 10
Notes to Financial Statements	11 - 20
Combining Statements and Schedule:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	21
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	22
Schedules of Water Rights Applications, Well Registrations, and Dam Inspections for the Fiscal Years Ended June 30, 1998, 1999, and 2000 – Unaudited	23
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	24 - 25

NEBRASKA DEPARTMENT OF WATER RESOURCES

BACKGROUND

The Nebraska Department of Water Resources (Department) was created by the Legislature and given all the duties previously assigned to the State Board of Irrigation, Highways, and Drainage.

The Department's primary duties included:

- Administering and enforcing State water laws;
- Carrying out agreements on interstate stream compacts and decrees;
- Surveying and compiling data on the flow of streams;
- Approving plans for dams and reservoirs;
- Registering ground water wells and issuing permits; and
- Inspecting dams.

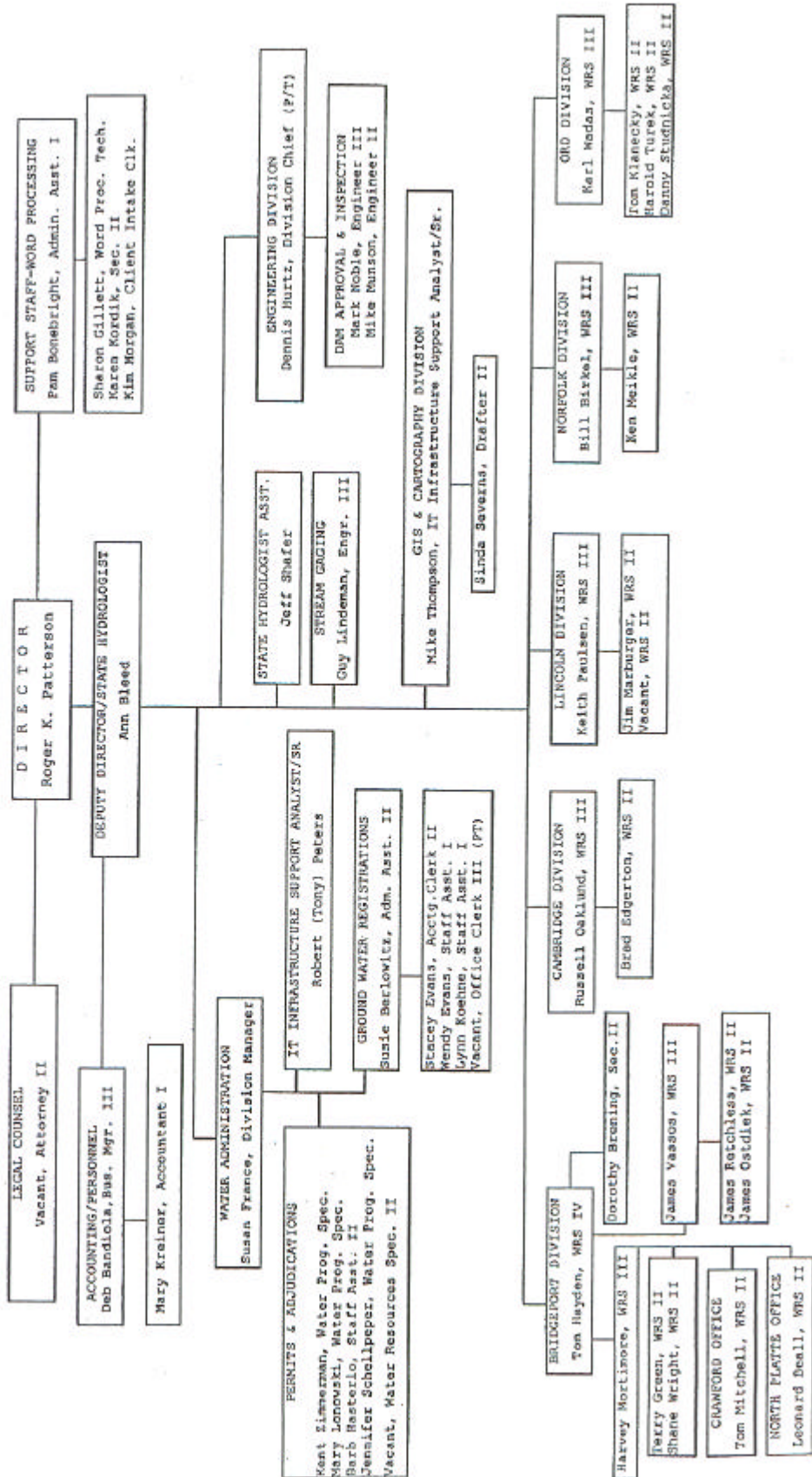
To accomplish these duties, the Department employed 50 individuals at June 30, 2000. Effective July 1, 2000 agency 29 – Department of Water Resources merged with agency 55 – Natural Resources Commission. The new agency number is 29 and the new agency name is Department of Natural Resources.

MISSION STATEMENT

The mission of the Department of Water Resources is to (1) promptly administer the state's water resources in accordance with the prior appropriation doctrine; (2) register all wells drilled in Nebraska; (3) promote and provide dam safety and; (4) protect Nebraska's water supply from out-of-state interests.

NEBRASKA DEPARTMENT OF WATER RESOURCES

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF WATER RESOURCES

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Water Resources, 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. ***Procedures Over Fixed Assets:*** One employee performed most functions related to fixed assets without compensating controls. In addition, errors were noted in our testing of fixed asset transactions.
2. ***Deposits Incorrectly Coded:*** We noted two General Documents where the line of coding for the deposits to the Nebraska Health and Human Services System (HHSS) and the Nebraska Natural Resources Commission (NRC) for the Well Driller Licenses and Well Registration fees were reversed. This caused NRC to receive too much and HHS to receive too little of these deposits.

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 WATER RESOURCES

COMMENTS AND RECOMMENDATIONS

1. Procedures Over Fixed Assets

During our review of fixed assets, we noted one employee was performing almost all functions related to fixed assets. This employee added purchases to the inventory list, completed the annual physical inventory, and deleted items “added in error,” without review by another employee. We also noted some exceptions in testing of fixed assets records. There was a fixed asset that cost \$1,081, purchased in FY 2000, that was not added to the list. Also, a \$55 item was coded to the 4800’s. Since this was under the \$300 capitalization policy for the fiscal year 2000, it should have been coded to supplies.

Good internal control requires proper segregation of duties. There is increased risk of error or misuse of assets without proper segregation of duties or compensating controls.

We recommend another person reconcile the 4800 purchases on the General Ledger to additions on the inventory list, and periodically review a history report from the Statewide Inventory Systems to ensure all deletions were properly made.

Department’s Response: The errors noted in the testing have been corrected. With the new agency merger, better segregation of duties for recording of fixed assets will be done.

2. Deposits Incorrectly Coded

During our audit we noted two General Documents where the lines of coding for the deposits to Health and Human Services (HHS) and Natural Resources Commission (NRC) for the Well Driller licenses and the Well Registration fees were reversed: document #802406 (June 20, 2000 Batch #1) and document #073621 (September 17, 1999). This caused NRC to receive too much and HHS too little resulting in an overstatement of the NRC account and an understatement of the HHS account.

Good internal control requires accuracy of accounting records.

We recommend these amounts be corrected, and that a review be made of all deposits for fiscal year 2000 to ensure each agency received the correct amount. In addition, we recommend review procedures be implemented to ensure receipts received in the future are recorded correctly.

Department’s Response: The incorrect documents will be corrected and a review will be done of FY 2000 deposits to ensure remaining deposits were made correctly.

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NEBRASKA DEPARTMENT OF WATER RESOURCES

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We have audited the financial statements of the Nebraska Department of Water Resources 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Water Resources, 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 Water Resources 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 May 31, 2001, on our consideration of the Nebraska Department of Water Resources' 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 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.

May 31, 2001

 c p A
Manager

NEBRASKA DEPARTMENT OF WATER RESOURCES
COMBINED STATEMENT OF ASSETS AND 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>Account Group</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	Totals (Memorandum Only)
<u>Assets</u>				
Cash in State Treasury	\$ -	\$ 99,522	\$ -	\$ 99,522
Deposits	2,832	-	-	2,832
Property, Plant, and Equipment	-	-	1,254,924	1,254,924
 Total Assets	 <u>\$ 2,832</u>	 <u>\$ 99,522</u>	 <u>\$ 1,254,924</u>	 <u>\$ 1,357,278</u>
 <u>Fund Balances and Other Credits</u>				
Other Credits:				
Investment in Fixed Assets	\$ -	\$ -	\$ 1,254,924	\$ 1,254,924
Fund Balances:				
Reserved For Postage and Bond	2,832	-	-	2,832
Unreserved, Undesignated	-	99,522	-	99,522
 Total Fund Balances and Other Credits	 <u>\$ 2,832</u>	 <u>\$ 99,522</u>	 <u>\$ 1,254,924</u>	 <u>\$ 1,357,278</u>

See Notes to Financial Statements.

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

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	<u>Special Revenue</u>	(Memorandum Only)
RECEIPTS:			
Appropriations	\$ 7,282,944	\$ -	\$ 7,282,944
Intergovernmental	-	57,094	57,094
Sales and Charges:			
Well Driller Licenses (Note 7)	238,200	-	238,200
Well Registrations (Note 7)	151,570	-	151,570
Reproductions & Publications	-	1,335	1,335
General Business Fees (Note 7)	87,423	9	87,432
Other Sales and Charges	83	850	933
Miscellaneous:			
Investment Interest	-	5,250	5,250
Miscellaneous Adjustments	980	(20,792)	(19,812)
Other Miscellaneous	247	1,595	1,842
TOTAL RECEIPTS	<u>7,761,447</u>	<u>45,341</u>	<u>7,806,788</u>
DISBURSEMENTS:			
Personal Services	2,130,922	-	2,130,922
Operating	4,805,792	20,493	4,826,285
Travel	220,691	9,471	230,162
Capital Outlay	125,539	2,994	128,533
TOTAL DISBURSEMENTS	<u>7,282,944</u>	<u>32,958</u>	<u>7,315,902</u>
Excess of Receipts Over Disbursements	<u>478,503</u>	<u>12,383</u>	<u>490,886</u>
OTHER FINANCING SOURCES (USES):			
Distributive Activity	75	-	75
Sales of Assets	402	-	402
Deposits to State General Fund	(89,135)	-	(89,135)
Deposits to Health & Human Services (Note 7)	(238,200)	-	(238,200)
Deposits to Natural Resources Commission (Note 7)	(151,570)	-	(151,570)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(478,428)</u>	<u>-</u>	<u>(478,428)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	75	12,383	12,458
FUND BALANCE, JULY 1, 1999	<u>2,757</u>	<u>87,139</u>	<u>89,896</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 2,832</u>	<u>\$ 99,522</u>	<u>\$ 102,354</u>

See Notes to Financial Statements.

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

	GENERAL FUND			CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ 7,282,944			\$ -	
Intergovernmental Revenue		-			-	
Sales and Charges:						
Well Driller Licenses (Note 7)		238,200			-	
Well Registrations (Note 7)		151,570			-	
Reproductions & Publications		-			1,335	
General Business Fees (Note 7)		87,423			9	
Other Sales and Charges		83			850	
Miscellaneous:						
Investment Interest		-			3,682	
Miscellaneous Adjustments		980			-	
Other Miscellaneous		247			-	
TOTAL RECEIPTS		<u>7,761,447</u>			<u>5,876</u>	
DISBURSEMENTS:						
Personal Services		2,130,922			-	
Operating		4,805,792			5,664	
Travel		220,691			-	
Capital Outlay		125,539			-	
TOTAL DISBURSEMENTS	<u>9,595,184</u>	<u>7,282,944</u>	<u>2,312,240</u>	<u>35,648</u>	<u>5,664</u>	<u>29,984</u>
Excess of Receipts Over (Under) Disbursements		<u>478,503</u>			<u>212</u>	
OTHER FINANCING SOURCES (USES):						
Distributive Activity		75			-	
Sale of Assets		402			-	
Deposit to State General Fund		(89,135)			-	
Deposits to Health & Human Services (Note 7)		(238,200)			-	
Deposits to Natural Resources Commission (Note 7)		(151,570)			-	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(478,428)</u>			<u>-</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		<u>75</u>			<u>212</u>	
FUND BALANCES, JULY 1, 1999		<u>2,757</u>			<u>65,167</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 2,832</u>			<u>\$ 65,379</u>	

See Notes to Financial Statements.

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

	FEDERAL FUND			TOTALS (MEMORANDUM ONLY)	
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:					
Appropriations		\$ -		\$ 7,282,944	
Intergovernmental Revenue		57,094		57,094	
Sales and Charges:					
Well Driller Licenses (Note 7)		-		238,200	
Well Registrations (Note 7)		-		151,570	
Reproductions & Publications		-		1,335	
General Business Fees (Note 7)		-		87,432	
Other Sales and Charges		-		933	
Miscellaneous:					
Investment Interest		1,568		5,250	
Miscellaneous Adjustments		(20,792)		(19,812)	
Other Miscellaneous		1,595		1,842	
TOTAL RECEIPTS		<u>39,465</u>		<u>7,806,788</u>	
DISBURSEMENTS:					
Personal Services		-		2,335,260	204,338
Operating		14,829		6,759,833	1,933,548
Travel		9,471		324,072	93,910
Capital Outlay		2,994		291,011	162,478
TOTAL DISBURSEMENTS	<u>79,344</u>	<u>27,294</u>	<u>52,050</u>	<u>9,710,176</u>	<u>2,394,274</u>
Excess of Receipts Over (Under) Disbursements		<u>12,171</u>		<u>490,886</u>	
OTHER FINANCING SOURCES (USES):					
Distributive Activity		-		75	
Sale of Assets		-		402	
Deposit to State General Fund		-		(89,135)	
Deposits to Health & Human Services (Note 7)		-		(238,200)	
Deposits to Natural Resources Commission (Note 7)		-		(151,570)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>		<u>(478,428)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		12,171		12,458	
FUND BALANCES, JULY 1, 1999		<u>21,972</u>		<u>89,896</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 34,143</u>		<u>\$ 102,354</u>	

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF WATER RESOURCES

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 Water Resources are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Water Resources (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 Water Resources. No component units were identified. The Nebraska Department of Water Resources 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 Department are maintained and the Department'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 Combined Statement of Assets and Fund Balances for all funds of the Department. 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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Under the cash receipts and disbursement basis of accounting, 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 fund type. 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 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 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.

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.

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- 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. 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 331, Nebraska Water Rights.

All State budgetary disbursements for the general, cash, and federal 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 cash 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.

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

- 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

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

cost or estimated 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 were designated for investment during fiscal year 2000.
- G. Distributive Activity.** 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 for deposits which will be returned on completion of some specified requirement.
- H. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- I. 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. 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.
- J. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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. For the Department, this is the National Dam Safety Program.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees, primarily well registrations, reproductions and publications, and general business fees.

Miscellaneous. Receipts from sources not covered by other major categories, primarily investment interest and adjustments.

K. 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.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

L. 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 postage in the amount of \$2,757 and a performance Bond of \$75.

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.
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.

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Water Resources' 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 judgment 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.

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 \$69,319 and the Department contributed \$108,137.

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **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
Buildings	\$ 64,799	\$ -	\$ -	\$ 64,799
Equipment	1,138,026	127,396	75,297	1,190,125
Total General Fixed Assets	<u>\$ 1,202,825</u>	<u>\$ 127,396</u>	<u>\$ 75,297</u>	<u>\$ 1,254,924</u>

6. **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 reflect appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 1999	\$ 1,746,459
New Appropriations	7,850,474
Total Appropriations	<u>9,596,933</u>
Disbursements	(7,282,944)
Lapse of Appropriations	(1,748)
Ending (Appropriations) Balance June 30, 2000	<u>\$ 2,312,241</u>

7. **Sales and Charges - Well Driller Licenses, Well Registration, and General Business**

The Department of Water Resources (Department) collected registration fees for ground water well registration. The \$238,200 collected by the Department and identified on the financial statements as Well Driller Licenses is the portion of those fees deposited directly by the Department into a Department of Health & Human Services (HHS) fund-fund 2208. HHS used these funds to administer and carry out the purposes of the Water Well Standards and Contractors' Licensing Act.

Prior to August 28, 1999 the Department's portion of the fees were deposited into the General fund and recorded on the financial statements with "General Business" fees. A legislative change (1999 Neb. Laws LB 92, codified at Neb. Rev. Stat. Section 46-606 R.S. Supp., 2000) changed the distribution of these fees. Effective August 28, 1999 the Natural Resources Commission (Water Well Decommissioning Fund) started receiving the Department's share of these fees. The Natural Resources Commission portion is used in cost-share programs for decommissioning wells. The program is available through the statewide Natural Resources Districts.

NEBRASKA DEPARTMENT OF WATER RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. **Nebraska Water Rights - Program 331**

The Department was appropriated funds for the "Nebraska Water Rights" Program 331 for fiscal year 2000. The disbursements from this program related to two lawsuits that have been initiated in order to protect existing state water supplies.

The first lawsuit, Nebraska v. Wyoming, is an action in the U.S. Supreme Court. It was filed in October 1986 and seeks to enforce, clarify and, if necessary, modify the existing decree originally entered by the Court in 1945. The other suit, Jess v. West, was filed in the U.S. Corps of Engineers and the U.S. Fish and Wildlife Service relating to the issuance of an Environmental Impact Statement and subsequent 404 permit authorizing the construction of the Deer Creek Dam and Reservoir in Wyoming. The activities include data gathering, legal work, contracted work by consultants, and related support services.

A new lawsuit, Kansas v. Nebraska, is an action in the U.S. Supreme Court. It was filed in May 1998. The state of Kansas filed the action over alleged violations of the Republican River Compact. The activities include data gathering, legal work, contracted work by consultants and related support services.

9. **Merger**

With the passage of 2000 Neb. Laws LB 900, the Nebraska Department of Natural Resources was created, effective July 1, 2000. Two state agencies with natural resources responsibilities, the Nebraska Department of Water Resources and the Nebraska Natural Resources Commission, were merged into one new agency, the Nebraska Department of Natural Resources.

The programs of both the Department of Water Resources and the Natural Resources Commission were continued in the merged agency. 2000 Neb. Laws LB 900A transferred the appropriations for both the Department of Water Resources and the Natural Resources Commission to the Department of Natural Resources for Fiscal Year 2000-01.

10. **Subsequent Event**

In the Nebraska v. Wyoming litigation noted in footnote 8 above, a complete settlement package was created and the parties submitted it to a Special Master in March 2001. The Special Master is currently reviewing that package and will make recommendations to the United States Supreme Court who is expected to deliberate the case and issue a final decree in the fall of 2001.

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

	Fund 2687	Fund 4291	Totals Special Revenue Funds
<u>Assets</u>			
Cash in State Treasury	\$ 65,379	\$ 34,143	\$ 99,522
Total Assets	<u>\$ 65,379</u>	<u>\$ 34,143</u>	<u>\$ 99,522</u>
<u>Fund Balances and Other Credits</u>			
Fund Balances:			
Unreserved, Undesignated	<u>\$ 65,379</u>	<u>\$ 34,143</u>	<u>99,522</u>
Total Fund Balances	<u>\$ 65,379</u>	<u>\$ 34,143</u>	<u>\$ 99,522</u>

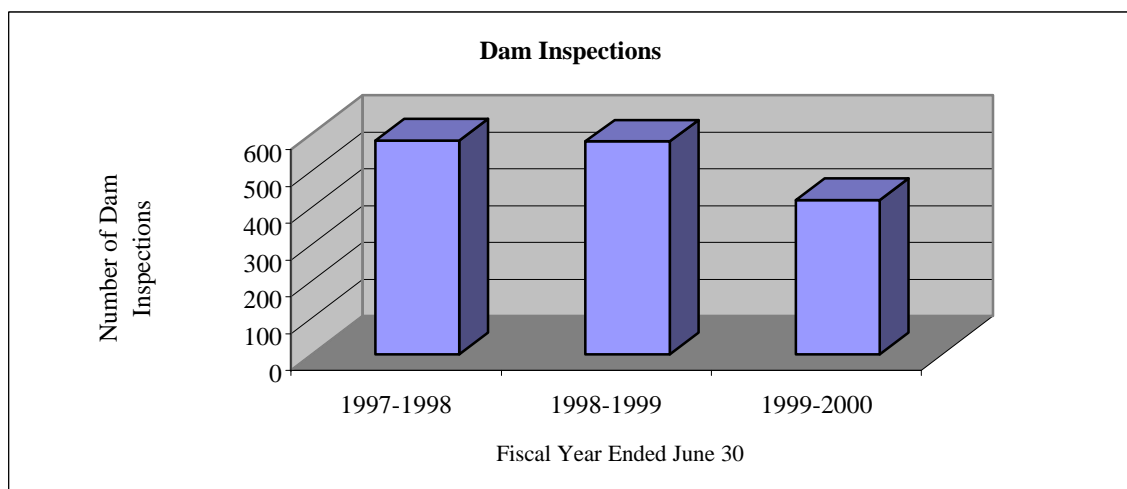
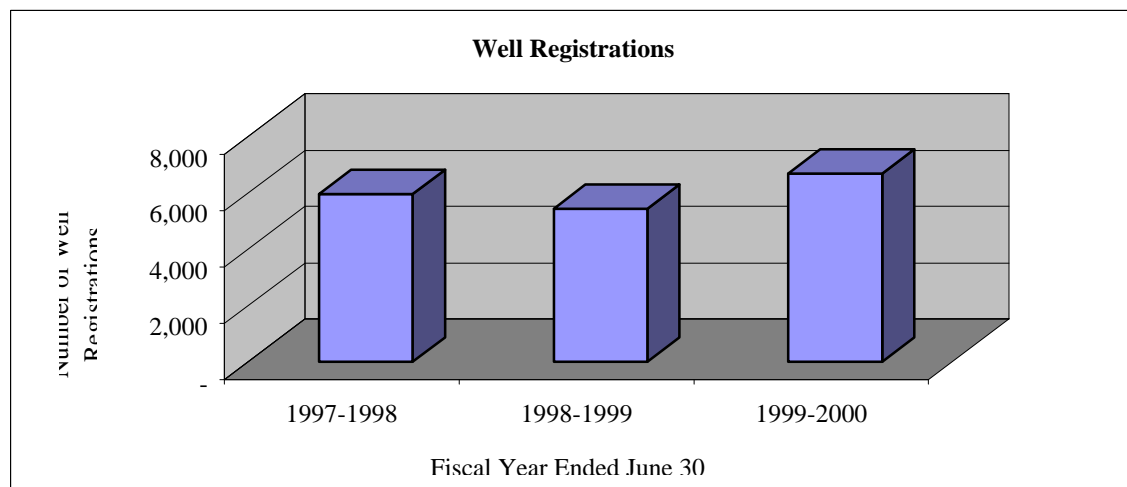
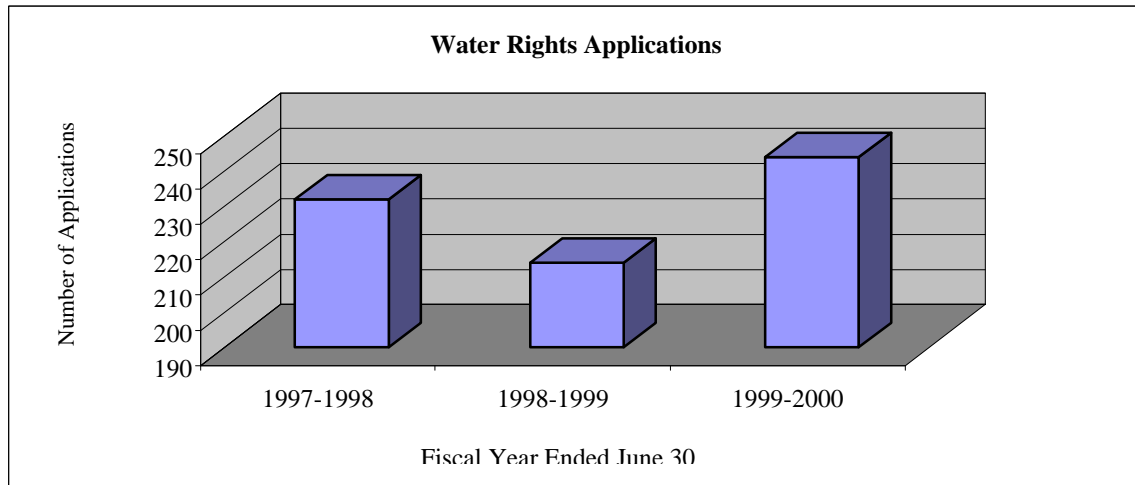
See Notes to Financial Statements.

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

	Fund 2687	Fund 4291	Total Special Revenue Funds
RECEIPTS:			
Intergovernmental	\$ -	\$ 57,094	\$ 57,094
Sales and Charges:			
Reproductions & Publications	1,335	-	1,335
General Business Fees	9	-	9
Other Sales and Charges	850	-	850
Miscellaneous:			
Investment Interest	3,682	1,568	5,250
Miscellaneous Adjustments	-	(20,792)	(20,792)
Other Miscellaneous	-	1,595	1,595
TOTAL RECEIPTS	<u>5,876</u>	<u>39,465</u>	<u>45,341</u>
DISBURSEMENTS:			
Operating	5,664	14,829	20,493
Travel	-	9,471	9,471
Capital Outlay	-	2,994	2,994
TOTAL DISBURSEMENTS	<u>5,664</u>	<u>27,294</u>	<u>32,958</u>
Excess of Receipts Over Disbursements	212	12,171	12,383
FUND BALANCE, JULY 1, 1999	<u>65,167</u>	<u>21,972</u>	<u>87,139</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 65,379</u>	<u>\$ 34,143</u>	<u>\$ 99,522</u>

See Notes to Financial Statements.

**NEBRASKA DEPARTMENT OF WATER RESOURCES
SCHEDULE OF WATER RIGHTS APPLICATIONS,
WELL REGISTRATIONS, AND DAM INSPECTIONS
UNAUDITED**



STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



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

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We have audited the financial statements of the Nebraska Department of Water Resources as of and for the year ended June 30, 2000, and have issued our report thereon dated May 31, 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 Water Resources. We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America 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 Water Resources' 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 Water Resources in the Comments Section of this report as Comment Number 1 (Procedures Over Fixed Assets) and Comment Number 2 (Deposits Incorrectly Coded).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Water Resources' 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 one matter involving the internal control over financial reporting that we have reported to management of Nebraska Department of Water Resources in the Comments Section of this report as Comment Number 1 (Procedures Over 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.

May 31, 2001

A handwritten signature in dark ink, appearing to read "Don Dunlap CPA". The signature is fluid and cursive.

Manager