

**AUDIT REPORT
OF THE
NEBRASKA ARTS COUNCIL**

JULY 1, 1999 THROUGH JUNE 30, 2000

NEBRASKA ARTS COUNCIL

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NEBRASKA ARTS COUNCIL

BACKGROUND

The Nebraska Arts Council was created by the 1965 Legislature to improve the state's cultural resources. The act was repealed in 1973, with new legislation creating a Council of 15 members who are appointed by the Governor and approved by the Legislature. The members of the Council are all known for their professional competence and experience or long-standing interest in the arts.

The Council's ultimate goal is to provide more and varied arts experiences in the State. To do this, the Council has helped start more than 50 community arts councils, helped other organizations sponsor art events, maintained an artist-in-residence program, and created the Nebraska Touring Program/Exhibits Nebraska to encourage Nebraska artists and arts organizations to take their talents to communities across the State.

Recently the Council has embarked on an ambitious multi-cultural initiative and begun a special program to highlight Nebraska's traditional artists.

The Council facilitates collaborative efforts with other agencies and organizations to enhance arts education and participation in all areas of the State. The Council receives funds from the National Endowment for the Arts which are matched with State funds.

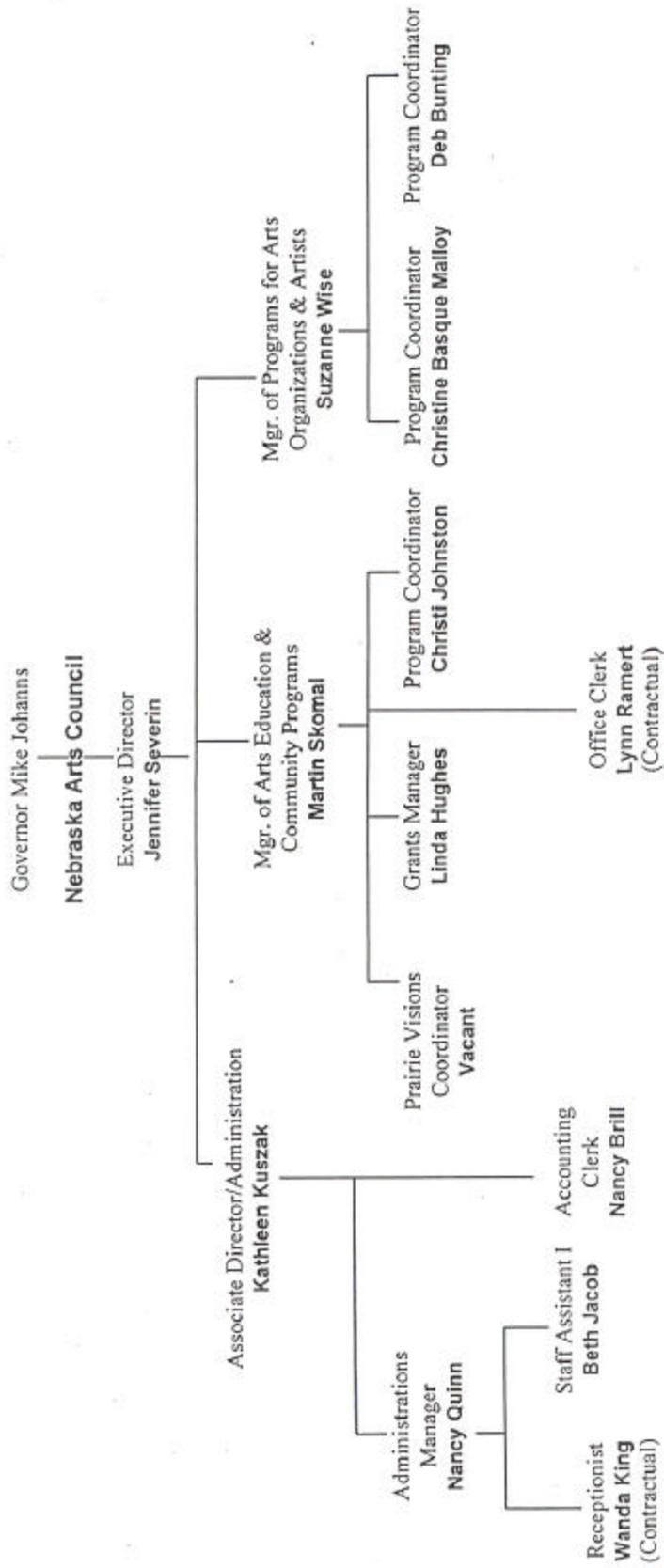
The Nebraska Arts Council is responsible for the Governor's Arts Awards, the Governor's Mansion exhibition program, and administering the 1 Percent for Art program for the State of Nebraska. The Council collaborates with Mid-America Arts Alliance and other State and/or federal agencies in activities such as Youth Arts Month, cultural tourism products like the arts and music audio guide to Nebraska's Panhandle, international cultural exchanges, and arts policy research for economic development.

Legislative Bill 799, approved by the Governor April 3, 1998, established a financial partnership between the Arts Council and the Nebraska Humanities Council (a private non-profit organization) and created the Nebraska Cultural Preservation Endowment Fund and the Nebraska Arts and Humanities Cash Fund. The bill required the State Treasurer to transfer five million dollars from the General Fund to the Endowment Fund on August 1, 1998. The bill further provided for all investment earnings from the Endowment Fund to be credited to the Nebraska Arts and Humanities Cash Fund in a ratio of seventy percent to projects, endowments, or programs designated by the Arts Council and thirty percent to projects, endowments, or programs designated by the Nebraska Humanities Council.

MISSION STATEMENT

The Nebraska Arts Council is a state agency that promotes, cultivates and sustains the arts for the people of Nebraska.

NEBRASKA ARTS COUNCIL
 ORGANIZATIONAL CHART



NEBRASKA ARTS COUNCIL

SUMMARY OF COMMENTS

During our audit of the Nebraska Arts Council (Council), 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. ***Nebraska Cultural Endowment Was Not Audited:*** The Nebraska Cultural Endowment, a nonprofit corporation incorporated for the support of the Council and the Nebraska Humanities Council, had not been audited as of April 2001. The Nebraska Cultural Endowment received \$633,661 from the State during fiscal year 2000 and the use of the funds is set by statute.
2. ***Procedures Over Fixed Assets:*** One employee performed almost all functions related to fixed assets, without review by another employee. Some errors were noted in testing of fixed assets.
3. ***Federal Subrecipient Monitoring:*** One of the procedures established by the Council to verify the expenditures of their subrecipients was to perform on-site visits. Based on the audit log, the last on-site visit took place on April 21, 1998.
4. ***Termination Pay:*** Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states each employee shall be paid for unused accumulated vacation leave on termination. One of two employee terminations tested was underpaid \$165.10, due to a 10 hour error in calculating the vacation leave balance.

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 Council 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. Where no response has been included, the Council declined to respond. 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 ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. **Nebraska Cultural Endowment Was Not Audited**

1988 Neb. Laws LB799 directed the State Treasurer to transfer five million dollars from the General Fund to the Nebraska Cultural Preservation Endowment Fund in the state treasury. The investment earnings from the Nebraska Cultural Preservation Endowment Fund were to be credited to the Nebraska Arts and Humanities Cash Fund of the Council. The rules and regulations of the Council were to “provide that the ultimate use of the disbursements from the Nebraska Arts and Humanities Cash Fund shall be in a ratio of seventy percent to projects, endowments, or programs designated by the Nebraska Arts Council and thirty percent to projects, endowments, or programs designated by the Nebraska Humanities Council.”

A nonprofit corporation, the Nebraska Cultural Endowment (NCE), was incorporated with two members: The Nebraska Arts Council (NAC) and the Nebraska Humanities Council (NHC). The bylaws state the corporation shall operate solely for the support of the NAC and NHC. All the earnings credited to the Nebraska Arts and Humanities Cash Fund were disbursed to the NCE. During fiscal year 2000, this amount was \$633,661 (89% of NCE’s receipts during that period). The NCE had not been audited as of April 2001.

Good business practice requires financial statements be audited to determine whether the financial statements are fairly presented and to provide accountability for State funds of which the ultimate use is designated by State law.

We recommend an annual audit be performed of the Nebraska Cultural Endowment’s financial statements.

Council’s Response: The Nebraska Cultural Endowment is in the process of having an audit performed by Boyle, Hess and Elliott CPA’s, P. C. The audit is scheduled to be completed for the September 2001 Annual meeting of this nonprofit corporation. The Chairman of the Finance Committee of the Nebraska Cultural Endowment will present a resolution at each annual meeting to contract with an accounting firm to perform the required annual audit.

2. **Procedures Over Fixed Assets**

Good internal control requires a proper segregation of duties so no one individual is capable of handling all phases of a process.

In the prior audit as well as the current audit, 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.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

2. **Procedures Over Fixed Assets** (Concluded)

We also noted some exceptions in testing the fixed asset records. There were \$2,423 of fiscal year 2000 purchases, which were coded to fixed assets (4800's) on the Nebraska Accounting System, but were not added to the inventory list. One item was under the \$300 capitalization policy and was miscoded and three items should have been added to the value of a computer on the list.

There is increased risk of errors or misuse of assets without proper segregation of duties.

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 System to ensure all deletions made were proper. We also recommend the Council code items to the 4800 account codes only if the items are capital assets which should be added to the inventory listing (except software). Items which do not fall into this category should be coded to account 4311 (Office Supplies Expense) which now includes equipment purchases such as chairs, desks, and computers, valued at less than \$1,500.

Council's Response: The NAC will add the responsibility to the Grants Officer position to review the 4800 series on the General Ledger on a monthly basis to lessen the risk of errors and monitor the input of information into the Statewide Inventory System.

The \$2423 amount listed was for a printer that cost \$199.99 that should have been coded to supplies and three computer cards/upgrades totaling \$2223 and purchased on three separate invoices/purchase orders. In the future, the NAC will increase the value of the computer that will be upgraded by the purchase of the network cards. This adjustment will be done to the Statewide Inventory System within 60 days of the posting in the Nebraska Accounting System of the expenditure to the 4800 series. This will substantiate the value of the computers for insurance and Risk Management purposes.

3. **Federal Subrecipient Monitoring**

One of the procedures established by the Council to verify the expenditures of their subrecipients was to perform on-site visits. Based on the audit log, the last on-site visit took place on April 21, 1998.

Policies and procedures state, "The Nebraska Arts Council (NAC) is now required by the National Endowment for the Arts (NEA) to verify the expenditures of subgrantees." NAC does desk reviews of all applications awarded. Program coordinators review and compare the Final Report to the application budget to ensure only approved items and services were paid by the grant. Actual supporting documentation is not sent in with the Final Report.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

3. Federal Subrecipient Monitoring (Concluded)

Without doing some periodic checks of actual documentation of expenditures reported by higher risk subrecipients, there is less assurance expenditures reported were correct and supported.

We recommend the Council set a policy on the number, frequency, and method of selection for on-site visits and ensure visits are performed annually.

Council's Response: The NAC requires a final report for each grant award. The final report includes a description of the project, press clippings from the event, the goals and accomplishments of the project and financial information. During the desktop audit, program coordinators compare the application to the final report budget information. All discrepancies are researched and contact is made with the grantee for clarification or needed corrections. The final 10% of the payment is withheld until the final report is approved by the appropriate coordinator. All Nebraska Touring and Artist in Schools/Communities grants also require a copy of the contract between the sponsor and the artists. Evaluation forms from the sponsoring organization are also submitted with the final report. The NAC does have a policy on the number, frequency, and method of selection for site visits. In the future, when the NAC Program Coordinators do on-site visits they will be instructed to complete the necessary documentation for on-site audits to insure the accuracy of the audit log.

4. Termination Pay

Neb. Rev. Stat. Section 81-1328, R.R.S. 1999 states each employee shall be paid for unused, accumulated vacation leave on termination.

One out of two employees terminated and tested was paid incorrectly. The individual was underpaid \$165.10. The pay was calculated from the leave balance on the time sheet, and there had been an error of 10 hours vacation leave in carrying the amount forward from a prior timesheet.

We recommend termination payments be rechecked to ensure leave balances and final payments are correct.

Council's Response: The NAC is very conscientious regarding employee's salary, leave and benefits. The NAC has implemented new procedures to ensure timely and accurate information on timesheets. The misstatement on the timecard resulted from several issues during the employees last few weeks of employment.

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NEBRASKA ARTS COUNCIL

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Arts 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 did not audit the financial statements of the Nebraska Endowment for the Arts, a component unit of the Nebraska Arts Council, which statements represent 15.2 percent and 2.6 percent, respectively, of the assets and receipts of the Special Revenue fund type. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nebraska Endowment for the Arts, is based on the report of the other auditors.

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 and the report of other auditors 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 Arts 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.

The financial statements referred to above do not include the financial data of the Nebraska Cultural Endowment, which should be included in order to conform with generally accepted accounting principles. We were unable to obtain the audited financial statements supporting the financial activities of the Nebraska Cultural Endowment nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. If the omitted component unit had been included, a discretely presented component unit column would have included assets and fund balances of \$343,355, receipts of \$712,974, and disbursements of \$376,591. As discussed in Note 6, \$633,761 of the receipts were received from the Nebraska Arts Council and \$258,881 of the disbursements were disbursed to the Nebraska Endowment for the Arts, a blended component unit of the Nebraska Arts Council.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Arts 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 April 25, 2001, on our consideration of the Nebraska Arts 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 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.



Manager

April 25, 2001

NEBRASKA ARTS COUNCIL
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>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	
<u>Assets</u>				
Cash	\$ -	\$ 426,695	\$ -	\$ 426,695
Deposit with Vendors	1,339	-	-	1,339
Petty Cash	250	-	-	250
Property, Plant, and Equipment	-	-	83,373	83,373
 Total Assets	 <u>\$ 1,589</u>	 <u>\$ 426,695</u>	 <u>\$ 83,373</u>	 <u>\$ 511,657</u>
 <u>Fund Balances and Other Credits</u>				
Other Credits:				
Investment in Fixed Assets	\$ -	\$ -	\$ 83,373	\$ 83,373
Fund Balances:				
Reserved For Postage	1,339	-	-	1,339
Unreserved, Undesignated	250	426,695	-	426,945
 Total Fund Balances and Other Credits	 <u>\$ 1,589</u>	 <u>\$ 426,695</u>	 <u>\$ 83,373</u>	 <u>\$ 511,657</u>

See Notes to Financial Statements.

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
RECEIPTS:			
Appropriations	\$ 1,356,130	\$ -	\$ 1,356,130
Intergovernmental	-	695,200	695,200
Sales and Charges	-	32,343	32,343
Miscellaneous:			
Interest	-	20,631	20,631
Donations	-	33,505	33,505
Non-governmental grants	-	288,167	288,167
Other	2,705	28,280	30,985
TOTAL RECEIPTS	1,358,835	1,098,126	2,456,961
DISBURSEMENTS:			
Personal Services	400,819	66,134	466,953
Operating	33,011	481,829	514,840
Travel	2,642	34,030	36,672
Capital Outlay	23,255	30,569	53,824
Government Aid	861,403	1,160,087	2,021,490
TOTAL DISBURSEMENTS	1,321,130	1,772,649	3,093,779
Excess of Receipts Over (Under) Disbursements	37,705	(674,523)	(636,818)
OTHER FINANCING SOURCES (USES):			
Sales of Assets	183	-	183
Operating Transfers In	-	552,542	552,542
Operating Transfers Out	(35,000)	(283,881)	(318,881)
Deposits to State General Fund	(2,888)	-	(2,888)
Distributive Activity:			
Ins	-	175	175
Outs	-	(9)	(9)
TOTAL OTHER FINANCING SOURCES (USES)	(37,705)	268,827	231,122
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(405,696)	(405,696)
FUND BALANCE, JULY 1, 1999	1,589	832,391	833,980
FUND BALANCE, JUNE 30, 2000	\$ 1,589	\$ 426,695	\$ 428,284

See Notes to Financial Statements.

NEBRASKA ARTS COUNCIL
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 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		\$ 1,356,130		\$ -		
Intergovernmental		-		-		
Sales and Charges		-		2,961		
Miscellaneous:						
Interest		-		2,305		
Donations		-		13,005		
Other		2,705		-		
TOTAL RECEIPTS		<u>1,358,835</u>		<u>18,271</u>		
DISBURSEMENTS:						
Personal Services		400,819		-		
Operating		33,011		13,201		
Travel		2,642		-		
Capital Outlay		23,255		-		
Government Aid		896,403		633,661		
TOTAL DISBURSEMENTS	<u>1,532,302</u>	<u>1,356,130</u>	<u>176,172</u>	<u>1,925,000</u>	<u>646,862</u>	<u>1,278,138</u>
Excess of Receipts Over (Under) Disbursements		<u>2,705</u>		<u>(628,591)</u>		
OTHER FINANCING SOURCES (USES):						
Sale of Assets		183		-		
Operating Transfers In		-		233,661		
Deposit to State General Fund:		(2,888)		-		
(NET) Distributive Activity:						
Ins		-		2		
Outs		-		(9)		
TOTAL OTHER FINANCING SOURCES (USES)		<u>(2,705)</u>		<u>233,654</u>		
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-		(394,937)		
FUND BALANCES, JULY 1, 1999		<u>1,589</u>		<u>408,615</u>		
FUND BALANCES, JUNE 30, 2000		<u>\$ 1,589</u>		<u>\$ 13,678</u>		

See Notes to Financial Statements.

(Continued)

NEBRASKA ARTS COUNCIL
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 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)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ -		\$ 1,356,130		
Intergovernmental		695,200		695,200		
Sales and Charges		-		2,961		
Miscellaneous:						
Interest		-		2,305		
Donations		-		13,005		
Other		20		2,725		
TOTAL RECEIPTS		<u>695,220</u>		<u>2,072,326</u>		
DISBURSEMENTS:						
Personal Services		10,826		\$ 479,112	411,645	\$ 67,467
Operating		165,913		395,783	212,125	183,658
Travel		22,509		42,893	25,151	17,742
Capital Outlay		24,948		30,544	48,203	(17,659)
Government Aid		476,243		3,374,447	2,006,307	1,368,140
TOTAL DISBURSEMENTS		<u>865,477</u>	<u>700,439</u>	<u>4,322,779</u>	<u>2,703,431</u>	<u>1,619,348</u>
Excess of Receipts Over (Under) Disbursements		<u>(5,219)</u>			<u>(631,105)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			183	
Operating Transfers In		-			233,661	
Deposit to State General Fund		-			(2,888)	
(NET) Distributive Activity:						
Ins		-			2	
Outs		-			(9)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>230,949</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		<u>(5,219)</u>			<u>(400,156)</u>	
FUND BALANCES, JULY 1, 1999		<u>83,210</u>			<u>493,414</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 77,991</u>			<u>\$ 93,258</u>	

See Notes to Financial Statements.

(Concluded)

NEBRASKA ARTS 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 Arts Council are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Arts Council (the Council) is a State agency established under and governed by the laws of the State of Nebraska. 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.

As required by generally accepted accounting principles, these financial statements present the Nebraska Arts Council and its blended component unit, the Nebraska Endowment for the Arts (NbEA). The Nebraska Arts Council is part of the primary government for the State of Nebraska's reporting entity. The blended component unit is included in the Council's reporting entity because of the significance of its operational or financial relationships with the Council. Complete financial statements of the blended component unit can be obtained from its administrative office.

These financial statements do not include the financial data of the Nebraska Cultural Endowment (NCE), which should be included as a discretely presented component unit in order to conform with generally accepted accounting principles. The NCE should be included because the significance of its relationship with the Council is such that exclusion would be misleading or incomplete. No separate financial statements have been issued.

Nebraska Endowment for the Arts. The NbEA is a nonprofit corporation. Three members of the Council and its Executive Director also serve as the Board of Directors for the NbEA. The Council provides a majority of the NbEA's receipts in the form of governmental aid. The NbEA is included in the Council's financial statements using the blending

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

method because the NbEA's purpose is almost entirely to provide a service to the Council, namely to redistribute its governmental aid to smaller subrecipients. It is reflected in a Special Revenue Fund.

Nebraska Cultural Endowment. The NCE is a nonprofit corporation formed with the Arts Council and the Nebraska Humanities Council as the only two members and with the purpose of operating solely for the support of the two Councils. The NCE members elect the Board of Directors. The majority of the NCE's receipts are the earnings from the Nebraska Cultural Preservation Endowment Fund, disbursed from the Arts and Humanities Cash Fund of the Arts Council. The ultimate use of these funds is required by statute to be in a ratio of 70% to projects, endowments, or programs designated by the Arts Council and 30% to those designated by the Nebraska Humanities Council. The NCE should be discretely presented in a separate column to emphasize it is legally separate from the State and governed by a separate board; however, because financial statements have not been issued, the financial data has not been included.

- 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 Combined Statement of Assets and Fund Balances for all funds of the Council. This differs from governmental generally accepted accounting principles (GAAP) which require 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.

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 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.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

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

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.

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.

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.

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. There are no annual budgets prepared for Trust funds. The

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

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.

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 ARTS 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. 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 Funds, and, as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2000 follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES	
	Total	PRIMARY GOVERNMENT	
		General	Special Revenue
PERSPECTIVE DIFFERENCES:			
Classifications of budgetary fund balances into			
Financial Statement fund structure:			
General	\$ 1,589	\$ 1,589	\$ -
Cash	13,678	-	13,678
Federal	77,991	-	77,991
Budgetary fund balances classified into Financial			
Statement fund structure	<u>\$ 93,258</u>	1,589	91,669
Entity Difference:			
Record funds not budgeted		-	335,026
Financial Statement Fund Balances, June 30, 2000		<u>\$ 1,589</u>	<u>426,695</u>

NEBRASKA ARTS COUNCIL

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 or estimated cost by the Council. 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 Council, except for Fund 2690, cash account 1113 (1% for Art), and Fund 4691 (Fine Arts Federal Fund) were designated for investment during fiscal year 2000.

- G. 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 Council which are owed to some individual, organization, or other government agency, or are 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 Council 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

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Council 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. This consists of grants from the National Endowment for the Arts.

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. This primarily consists of interest, donations, and grants from private sources.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Council 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.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

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.

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 Council 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 Council, 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 ARTS COUNCIL

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 Arts Council's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Council, if any, could not be determined at this time. However, it is the Council's opinion that final settlement of those matters should not have an adverse effect on the Council's ability to administer current programs. Any judgment against the Council 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 Council matches the employee's contribution at a rate of 156% of the employee's contribution.

NEBRASKA ARTS COUNCIL

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 \$15,952 and the Council contributed \$24,886.

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
Equipment	\$ 72,281	\$ 17,496	\$ 6,404	\$ 83,373

6. **Government Aid – Nebraska Arts and Humanities Cash Fund (Fund 2692)**

\$633,661 was disbursed as Government Aid from the Cash Fund to the Nebraska Cultural Endowment (NCE). During fiscal year 2000, the NCE disbursed \$258,881 of this to the Nebraska Endowment for the Arts, a blended component unit of the Council. An adjustment was made to show the amount going to the blended component unit as an Operating Transfer Out from Fund 2692 and an Operating Transfer In into the Nebraska Endowment for the Arts. The amount for Government Aid in Fund 2692 was reduced from \$636,661 to \$374,780 and Operating Transfers Out was increased to \$258,881.

7. **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 schedules reflect appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 1999	\$ 70,918
New Appropriations	1,461,384
Total Appropriations	<u>1,532,302</u>
Disbursements	(1,321,130)
Operating Transfers Out	(35,000)
Ending (Appropriations) Balance June 30, 2000	<u>\$ 176,172</u>

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

	Nebraska Arts Council Cash Fund 2690	Nebraska Arts & Humanities Cash Fund 2692	Nebraska Endowment For the Arts Cash Fund	Fine Arts Federal Fund 4691	Arts Council Trust Fund 6691	Totals Special Revenue Funds
<hr/> Assets <hr/>						
Cash	\$ 11,882	\$ 1,796	\$ 64,844	\$ 77,991	\$ 270,182	\$ 426,695
Total Assets	\$ 11,882	\$ 1,796	\$ 64,844	\$ 77,991	\$ 270,182	\$ 426,695
 <hr/> Fund Balances and Other Credits <hr/>						
Fund Balances:						
Unreserved, Undesignated	11,882	1,796	64,844	77,991	270,182	426,695
Total Fund Balances	\$ 11,882	\$ 1,796	\$ 64,844	\$ 77,991	\$ 270,182	\$ 426,695

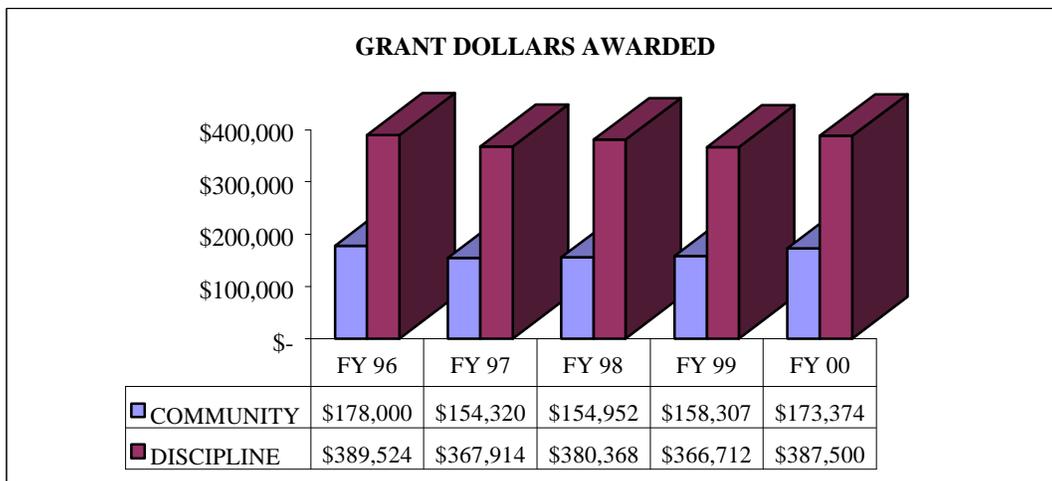
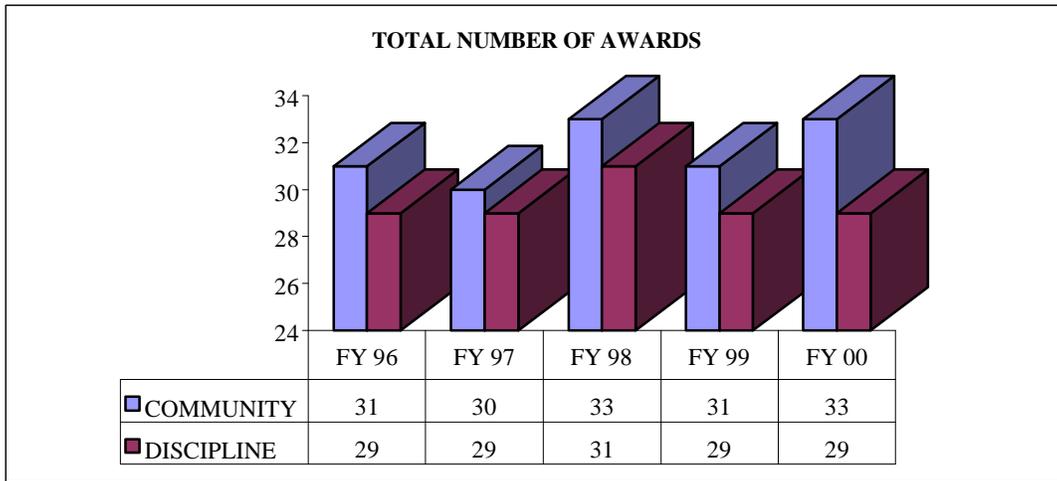
See Notes to Financial Statements.

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

	Nebraska Arts Council Cash Fund 2690	Nebraska Arts & Humanities Cash Fund 2692	Nebraska Endowment For the Arts Cash Fund	Fine Arts Federal Fund 4691	Arts Council Trust Fund 6691	Total Special Revenue Funds
RECEIPTS:						
Intergovernmental	\$ -	\$ -	\$ -	\$ 695,200	\$ -	\$ 695,200
Sales and Charges	2,961	-	-	-	29,382	32,343
Miscellaneous:						
Interest	509	1,796	-	-	18,326	20,631
Donations and Contributions	13,005	-	-	-	20,500	33,505
Non-governmental Grants	-	-	-	-	288,167	288,167
Other	-	-	28,260	20	-	28,280
TOTAL RECEIPTS	16,475	1,796	28,260	695,220	356,375	1,098,126
DISBURSEMENTS:						
Personal Services			-	10,826	55,308	66,134
Operating	13,201	-	12,171	165,913	290,544	481,829
Travel	-	-	-	22,509	11,521	34,030
Capital Outlay	-	-	-	24,948	5,621	30,569
Government Aid	-	374,780	328,144	451,243	5,920	1,160,087
TOTAL DISBURSEMENTS	13,201	374,780	340,315	675,439	368,914	1,772,649
Excess of Receipts Over (Under) Disbursements	3,274	(372,984)	(312,055)	19,781	(12,539)	(674,523)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	-	233,661	318,881	-	-	552,542
Operating Transfers Out	-	(258,881)	-	(25,000)	-	(283,881)
Distributive Activity:						
Ins	2	-	-	-	173	175
Outs	(9)	-	-	-	-	(9)
TOTAL OTHER FINANCING SOURCES (USES)	(7)	(25,220)	318,881	(25,000)	173	268,827
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	3,267	(398,204)	6,826	(5,219)	(12,366)	(405,696)
FUND BALANCE, JULY 1, 1999	8,615	400,000	58,018	83,210	282,548	832,391
FUND BALANCE, JUNE 30, 2000	\$ 11,882	\$ 1,796	\$ 64,844	\$ 77,991	\$ 270,182	\$ 426,695

NEBRASKA ARTS COUNCIL BASIC SUPPORT GRANTS

These awards provide annual operating support to eligible community, volunteer, and discipline based arts organizations. Recipients are required to provide a 50% match, half of which must be in-kind.

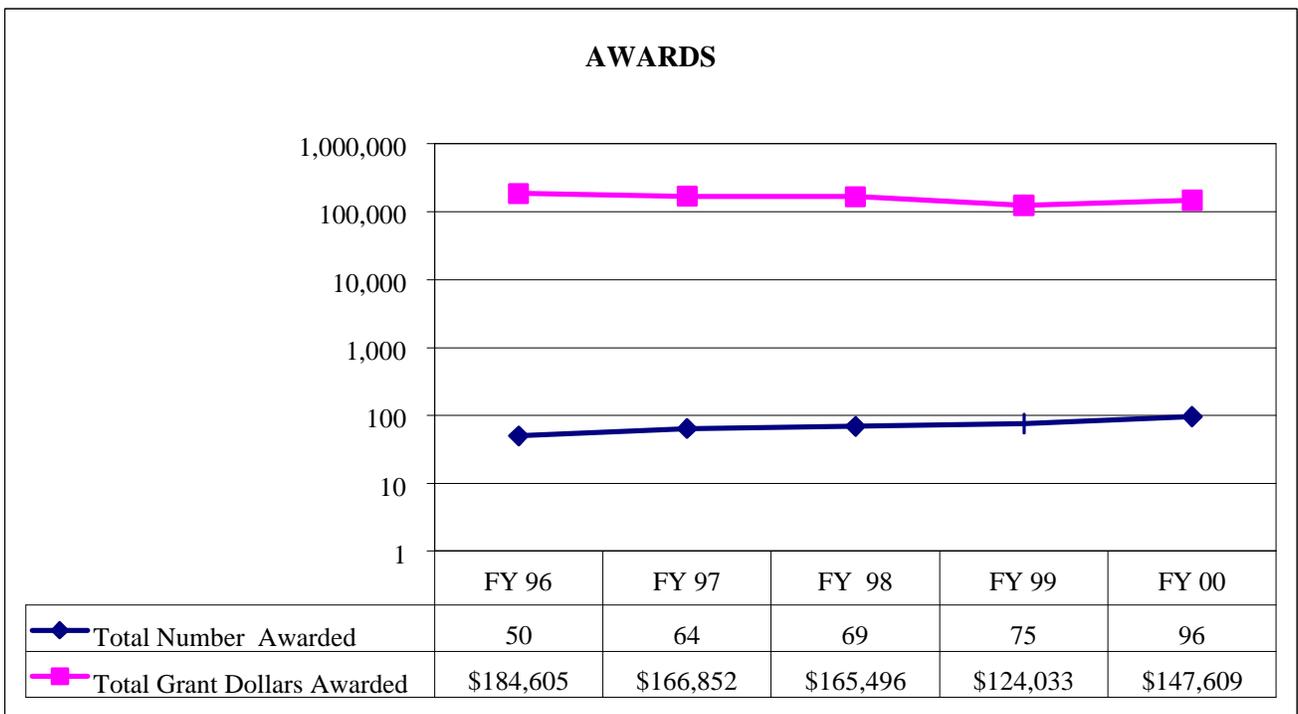
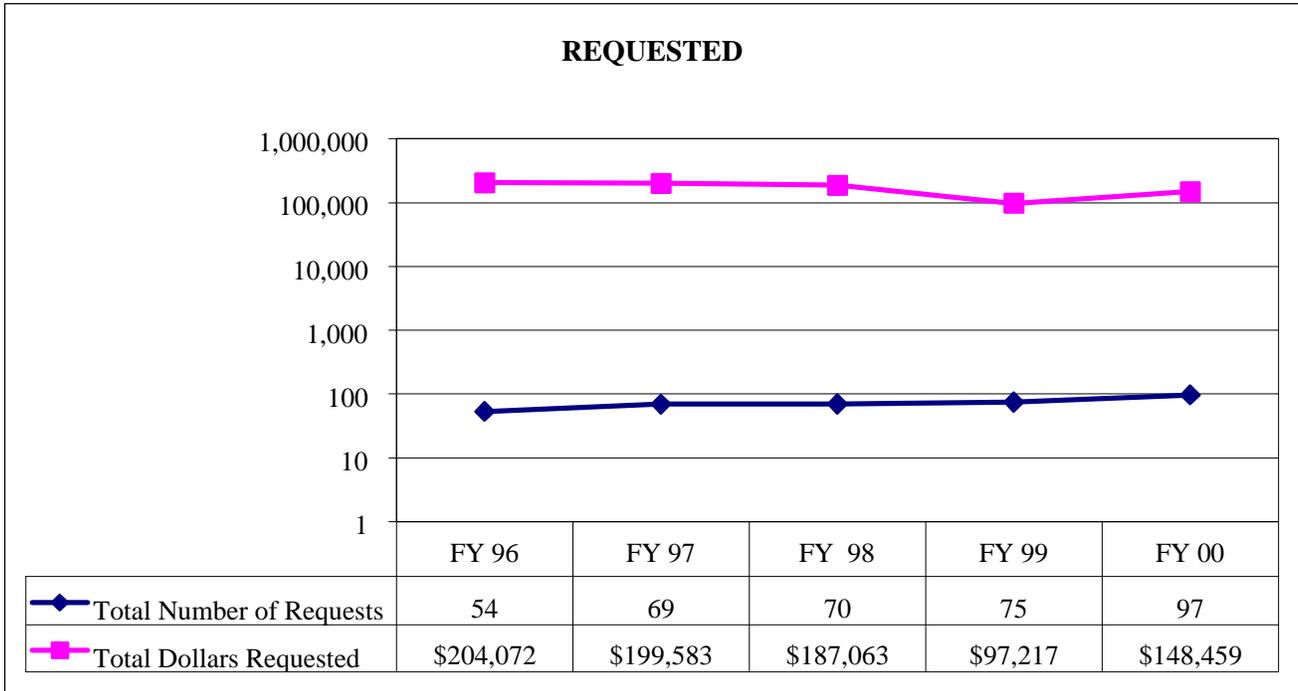


UNAUDITED

		Average Grant Award	People involved in NAC Funded Projects	Artists involved in NAC Funded Projects	Volunteer Time & Donations	Volunteers
FY 96	Community	\$ 5,742	136,671	2,785	figures unavailable	figures unavailable
	Discipline	\$ 13,432	1,714,961	4,442	figures unavailable	figures unavailable
FY 97	Community	\$ 5,144	117,223	3,132	\$ 676,534	2,254
	Discipline	\$ 13,017	1,778,282	3,737	\$ 2,021,640	11,479
FY 98	Community	\$ 4,696	152,163	3,655	\$ 596,928	2,649
	Discipline	\$ 11,625	1,740,462	3,798	\$ 7,691,599	10,708
FY 99	Community	\$ 5,089	157,524	3,027	\$ 692,923	2,577
	Discipline	\$ 12,645	1,974,391	4,222	\$ 1,908,878	10,713
FY 00	Community	\$ 5,254	136,761	2,520	\$ 656,631	2,491
	Discipline	\$ 13,362	1,092,639	3,735	\$ 1,280,026	5,575

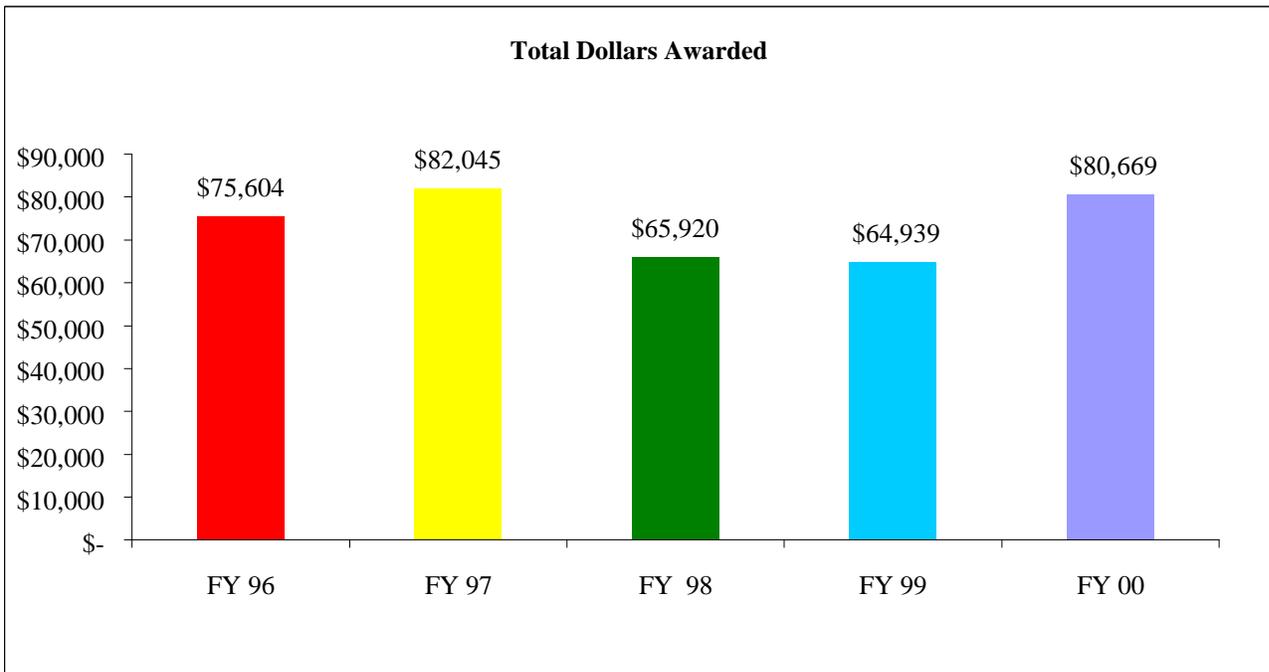
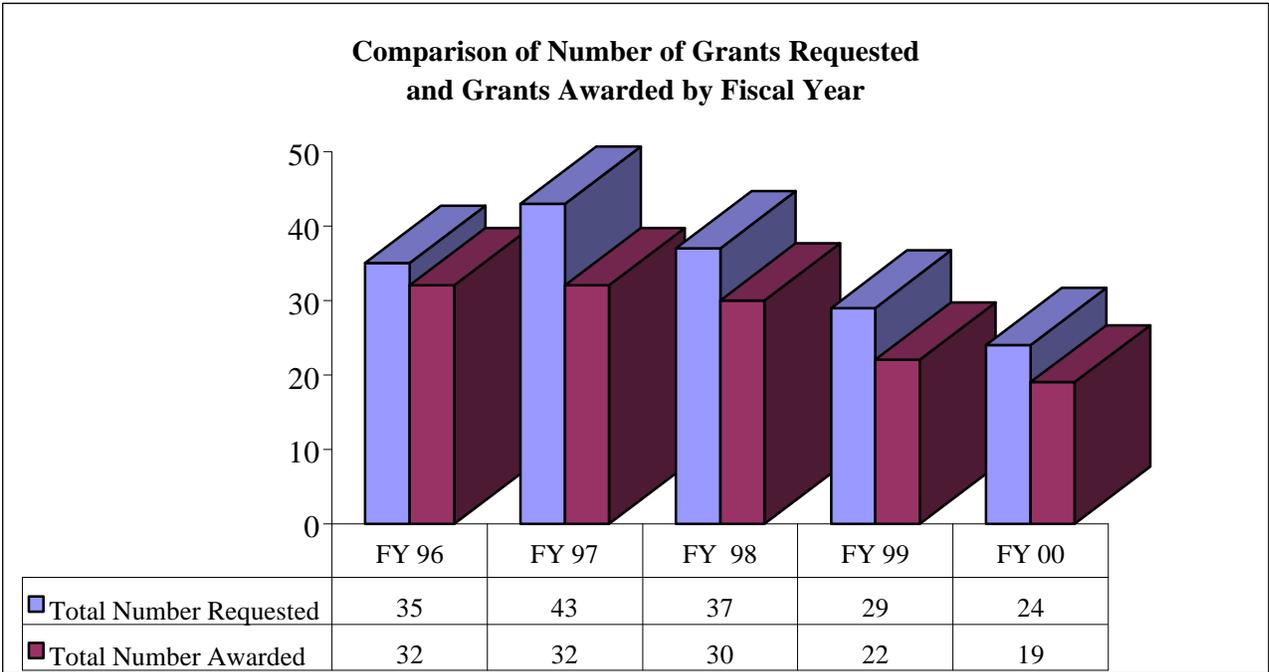
**NEBRASKA ARTS COUNCIL
ARTISTS IN SCHOOLS/COMMUNITIES**

These awards by the Nebraska Arts Council are support fees for the Artists-in-Residence Program. The program places an artist in a school or community setting with the recipient paying up to 50% of the costs.



**NEBRASKA ARTS COUNCIL
MULTICULTURAL AWARENESS**

These grants are made to organizations for projects that include works by people of color in existing or new arts programming.



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NEBRASKA ARTS 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 Arts Council as of and for the year ended June 30, 2000, and have issued our report thereon dated April 25, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements, was modified to emphasize that the financial statements present only the funds of the Nebraska Arts Council, and was qualified as the financial statements do not include the financial data of the Nebraska Cultural Endowment, a component unit of the Nebraska Arts 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 Arts 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 certain immaterial instances of noncompliance that we have reported to management of the Nebraska Arts Council in the Comments Section of this report as Comment Number 3 (Federal Subrecipient Monitoring) and Comment Number 4 (Termination Pay).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Arts 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Arts Council in the Comments Section of this report as Comment Number 2 (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.

A handwritten signature in cursive script that reads "Julia Peralta CPA".

Manager

April 25, 2001