

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF AERONAUTICS**

**JULY 1, 2000 THROUGH JUNE 30, 2001**

# NEBRASKA DEPARTMENT OF AERONAUTICS

## TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1 - 2
Mission Statement	2
Organizational Chart	3
Nebraska Map of Public Use Airports	4
<b>Comments Section</b>	
Comment and Recommendation	5 - 7
<b>Financial Section</b>	
Independent Auditors' Report	8 - 9
Financial Statements:	
Statement of Assets and Fund Balances and Other Credits Arising from Cash Transactions – Special Revenue and Nonexpendable Trust Fund Types	10
Statement of Receipts, Disbursements, and Changes in Fund Balances	11
Statement of Receipts, Disbursements, and Changes In Fund Balances - Budget and Actual – General and Cash Funds	12
Notes to Financial Statements	13 – 24
Schedules:	
Schedule of Aid Disbursements by Airport	25
Schedules of Disbursements – Five-Year Summary	26
Schedule of Aircraft Hours Used by Agency	27
<b>Government Auditing Standards Section</b>	
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>	28 - 29

# NEBRASKA DEPARTMENT OF AERONAUTICS

## BACKGROUND

The Department is composed of a Director, staff, and the Nebraska Aeronautics Commission.

**COMMISSION:** The Nebraska Aeronautics Commission was originally established in 1945. It is a five member Commission appointed by the Governor, and each member serves for five years. One Commission member is appointed or reappointed each year in March. The members of the Commission receive no salary but are reimbursed for their actual expenses.

The Commission's primary functions are:

1. Allocate State funds and approve the use of Federal funds to be spent for the construction or maintenance of airports.
2. Designate the location and approve the sites of airports.
3. Arrange and authorize the purchase of aircraft on behalf of the State.
4. Select and approve pilots to be employed by the State.
5. Assist the Director in formulating the regulations and policies to be carried out by the Department under the terms of the State Aeronautics Department Act.

**DEPARTMENT OPERATIONS:** The Nebraska Department of Aeronautics was created in 1945 to provide for the development and regulation of transportation by aircraft and the closely-related areas of airports and air navigation aids. The Governor appoints the Director, subject to confirmation by the Legislature. The Director serves at the will of the Governor and the salary is fixed by the Governor. The Director's primary duties are:

1. Serve as administrative officer of the department.
2. Administer the statutes, rules, and regulations of the State relative to aeronautics.
3. Serve as secretary for the Nebraska Aeronautics Commission (no voting ability).
4. Appoint department staff pursuant to appropriations approved by law.
5. Manage the offices of the department, and collect and report information to the Commission and public related to aeronautics.
6. Execute all contracts to which the department is legally authorized to enter into.

To accomplish its responsibilities, the Department is organized into five divisions. They are: Administration, Operations, Navigational Aids, State-owned Airfields, and Engineering. The functions of the Department are as follows by division:

### **Administration:**

**7 employees**

- a. Budget and account for the funds of the department.
- b. Provide clerical support for the other department divisions.
- c. Keep current regarding State and Federal legislative and regulatory matters and legal issues which affect aviation in Nebraska.
- d. Coordinate policy matters with the Aeronautics Commission.
- e. Coordinate department activities with other State and local agencies.

# NEBRASKA DEPARTMENT OF AERONAUTICS

## BACKGROUND

(Concluded)

### Operations:

**6 employees**

- a. Participate in Aerospace Education efforts in the State, including the Nebraska Aviation Art Contest.
- b. Publish a monthly Aviation Newsletter entitled "Pireps."
- c. Publish biennially a State Aeronautical Chart and State Airport Directory.
- d. Operate Department Aircraft, and provide air transportation for the Governor and State officials.
- e. Register and license public-use airports.
- f. Coordinate air activities in support of the State Civil Defense Agency in time of National disaster or National emergency.

### Navigational Aids:

**6 employees**

- a. Install and maintain electronic navigational aids throughout the State that supplement the Federal Aviation Administration (FAA) system of navigational aids and enhance the ability of individuals and businesses to use aviation in Nebraska.
- b. Install and maintain airport rotating beacons.
- c. Install and maintain State-owned AWOS (Automated Weather Observation Systems).

### State-Owned Airfields:

**3 employees**

- a. Manage the State-owned airfields at Fairmont, Harvard, and Scribner.

### Engineering:

**8 employees**

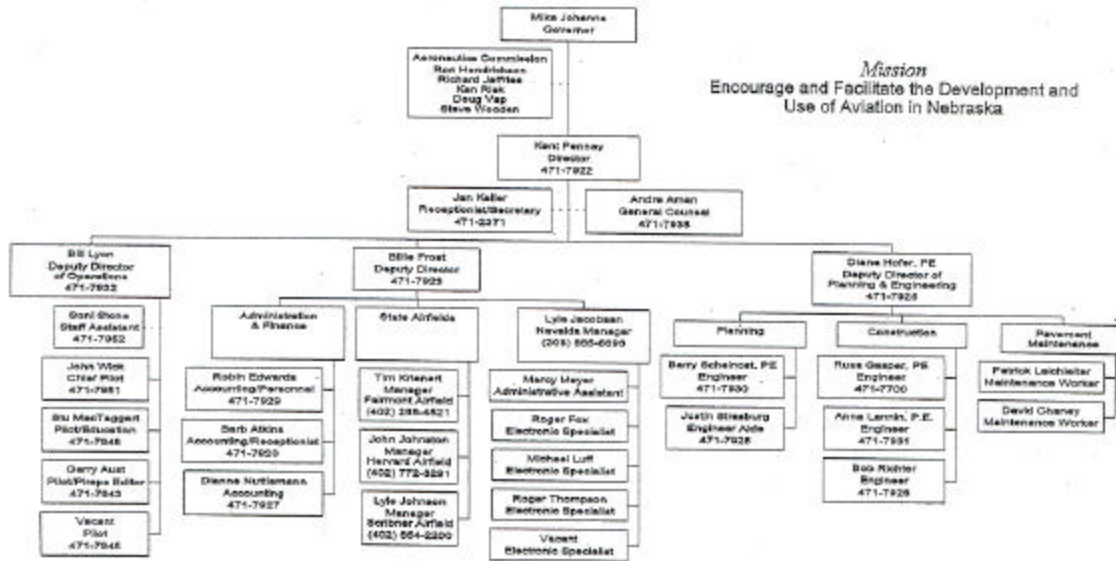
- a. Assist and advise airports regarding planning, construction, and development.
- b. Administer State and Federally-funded projects.
- c. Supervise construction of certain projects, including State-funded pavement maintenance projects (i.e. Slurry Seal).
- d. Inspect public-use airports for safety and pavement condition.
- e. Review construction proposals that may impact airports, and assist on local zoning matters. This particularly deals with height restrictions and towers.
- f. Coordinate crack/joint sealing and pavement marking on public-use airports.

## MISSION STATEMENT

Encourage and facilitate the development and use of aviation in Nebraska.

# NEBRASKA DEPARTMENT OF AERONAUTICS

## ORGANIZATIONAL CHART



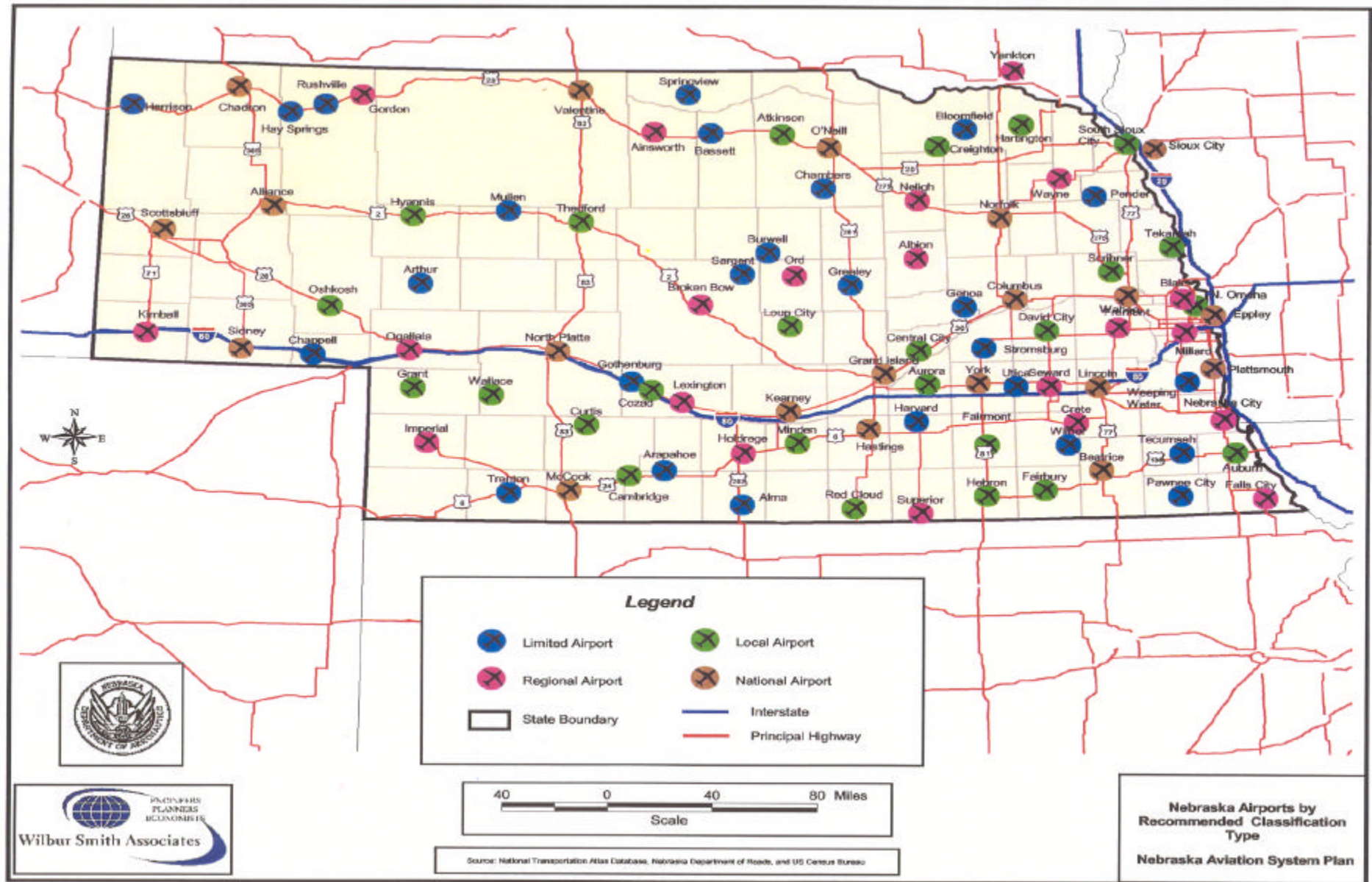
Web Site <http://www.nda.org/home/ndoa>

Main Phone 471-2371

All Phone Numbers area code (402) unless otherwise indicated

Conference Room Phone 471-7916

# NEBRASKA DEPARTMENT OF AERONAUTICS NEBRASKA MAP OF PUBLIC USE AIRPORTS



## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENT AND RECOMMENDATION

During our audit of the Nebraska Department of Aeronautics, 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. **Fixed Assets**

Good internal control requires an adequate segregation of duties to ensure accounting records are accurate and to protect assets from loss or misuse. Good internal control over fixed assets requires a written capitalization policy to ensure consistency and avoid confusion.

We noted the following:

- ◆ The same person maintained the fixed asset records, added items to the list, prepared surplus forms, and recorded sold and surplus items. There was no procedure for a review by another employee to ensure errors were not made.
- ◆ The Department did not have a written policy regarding what items should be included on the fixed asset listing. Several items were noted with purchase costs less than \$100.
- ◆ Five of twelve documents tested included items that were not added to the fixed asset list. Items not added included a plow, monitor, typewriter, air conditioner, calibrator, radio automated weather observation station, and two computers. The purchase cost of these items totaled \$6,645.
- ◆ Approximately 1,500 items on the fixed asset list did not include purchase costs. During our prior audit the Department had identified costs for 172 of these items. We reviewed 30 of these items totaling \$716,124 and noted the costs had not been added to the fixed asset listing.
- ◆ Eighteen of 39 items added to the list in the fiscal year did not include the purchase cost. One item did not have the correct purchase cost and another item did not have the correct purchase date recorded.
- ◆ Supply items such as ribbons and cables were coded to capital outlay.

A similar finding was noted in the prior audit.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENT AND RECOMMENDATION

#### 1. **Fixed Assets** (Continued)

We recommend the Department implement procedures to ensure an adequate segregation of duties or provide an independent review to ensure the fixed asset listing is accurate and complete. We further recommend a policy be determined and documented regarding the type and dollar amount of items to be maintained. The present listing should be brought into compliance with the policy.

#### *Department's Response:*

- *The Department recognizes and agrees with the findings of the auditor in all respects. The Department became aware of the situation with fixed assets with the audit dated June 16, 2000. Soon after this time and not related to the audit, the Department implemented a reduction in force in August 2000, eliminating two positions. One of the positions eliminated was the individual that had overseen surplus property and the Department's inventory. The duties were reassigned to the Deputy Director who has worked in cooperation with staff from the Department's Navais Division to review the fixed asset and other inventory and convert the database from a DOS based system (PFS) to Microsoft Access. While this conversion and review process was taking place to sort through the inventory records on paper, the Deputy Director had the airport Managers conduct a physical inventory of their facilities and the Navais manager conduct a physical inventory of his facility. The next step of this inventory process which will be conducted will be comparing the physical inventory with the paper inventory to make sure everything is correct.*

*The Department believes that the work completed to date by the Deputy Director and Navais staff allowed the State Auditor's staff to conduct such a complete and thorough analysis of the Department's fixed assets. The PFS system and manner in which the inventory was maintained did not allow such an analysis by the Department or State Auditor in the prior audit.*

- *The Department would like to note that the majority of the items which did not have purchase costs would be included in the following categories:*
  - *Items acquired when only a description of the item and identification number were required.*
  - *Items acquired as federal surplus at no cost, though the item had some value, and therefore no purchase cost was applicable. It is now recognized that the value needs to be recognized. The Department will be working to establish a value for these items and is working with the NIS group as well to determine how it will be recorded in the fixed assets listing.*



## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENT AND RECOMMENDATION

#### 1. **Fixed Assets** (Concluded)

*A minimum number of the approximately 1,500 items were errors in recording purchase costs, when that information was available and know to be required.*

*Department managers have been instructed verbally, immediately after the auditor's staff exit conference, to assure they point out any purchases of fixed assets to the Deputy Director so they can be properly recorded in the fixed asset listing. In addition, following the exit conference, the finance staff in the Department is more cognizant of what to look for on claims to find fixed assets which may have been missed otherwise.*

- *In conjunction with completing all physical inventories and necessary correction of the fixed asset records, a policy will be developed to identify the dollar amount for assets to be recorded in the fixed assets account group and what other items of lesser value will be maintained on a separate inventory to assure that tools/materials are appropriately secured. The Department will also review duties to accommodate to the greatest extent practicable, a segregation of duties to provide for independent review of the fixed asset listing.*

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 comment and recommendation included in this report. The formal response 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.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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

## NEBRASKA DEPARTMENT OF AERONAUTICS

### INDEPENDENT AUDITORS' REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
[haeffner@mail.state.ne.us](mailto:haeffner@mail.state.ne.us)

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[aud1010@vmhost.cdp.state.ne.us](mailto:aud1010@vmhost.cdp.state.ne.us)

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[aud1008@vmhost.cdp.state.ne.us](mailto:aud1008@vmhost.cdp.state.ne.us)

**Mary Avery**  
SAE/Finance Manager  
[MaryJAvery@aol.com](mailto:MaryJAvery@aol.com)

**Dennis Meyer**  
Budget Coordinator  
[dmeyer@mail.state.ne.us](mailto:dmeyer@mail.state.ne.us)

**Mark Avery**  
Subdivision Audit  
Review Coordinator  
[mavery@mail.state.ne.us](mailto:mavery@mail.state.ne.us)

**Robert Hotz, JD**  
Legal Counsel  
[robhotz@mail.state.ne.us](mailto:robhotz@mail.state.ne.us)

We have audited the financial statements of the Nebraska Department of Aeronautics as of and for the fiscal year ended June 30, 2001, 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 Aeronautics, 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 Aeronautics as of June 30, 2001, 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 January 10, 2002, on our consideration of the Nebraska Department of Aeronautics' 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 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.

January 10, 2002

Pat Reding, CPA  
Manager

NEBRASKA DEPARTMENT OF AERONAUTICS  
**STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE AND NONEXPENDABLE FUND TYPES**

June 30, 2001

	<u>Governmental</u> <u>Fund Type</u>	<u>Fiduciary</u> <u>Fund Type</u>	<b>Totals</b> <b>(Memorandum</b>
	<u>Special</u> <u>Revenue</u>	<u>Nonexpendable</u> <u>Trust</u>	<u>Only)</u>
<b><u>Assets</u></b>			
Cash in State Treasury	\$ 4,297,690	\$ -	\$ 4,297,690
Investments	-	6,269,427	6,269,427
Deposit with Vendors	<u>3,102</u>	<u>-</u>	<u>3,102</u>
 Total Assets	 <u><u>\$ 4,300,792</u></u>	 <u><u>\$ 6,269,427</u></u>	 <u><u>\$ 10,570,219</u></u>
 <b><u>Fund Balances</u></b>			
Fund Balances:			
Reserved for:			
Endowment Principal	\$ -	\$ 6,269,427	\$ 6,269,427
Deposits with Vendors	3,102	-	3,102
Unreserved, Designated for:			
Aircraft Overhaul and Maintenance	290,273	-	290,273
Aircraft Replacement	308,283	-	308,283
State & Federal Aid Projects	1,904,627	-	1,904,627
Hangar Loans	630,710	-	630,710
Fuel Loans	50,470	-	50,470
State Owned Airfields	420,780	-	420,780
Unreserved, Undesignated	<u>692,547</u>	<u>-</u>	<u>692,547</u>
 Total Fund Balances	 <u><u>\$ 4,300,792</u></u>	 <u><u>\$ 6,269,427</u></u>	 <u><u>\$ 10,570,219</u></u>

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

NEBRASKA DEPARTMENT OF AERONAUTICS  
**STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2001

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund type</u>	<b>Totals</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Nonexpendable Trust</u>	<u>(Memorandum Only)</u>
RECEIPTS:				
Appropriations	\$ 35,000	\$ -	\$ -	\$ 35,000
Aviation Fuel Tax	-	1,715,643	-	1,715,643
Intergovernmental:				
Federal Aid/Reimbursement	-	13,870,799	-	13,870,799
Reimbursement from Local Government	-	112,507	-	112,507
Sales and Charges	-	98,045	-	98,045
Miscellaneous:				
Investment Interest	-	262,709	435,684	698,393
Net Appreciation/Depreciation of Investments	-	-	183,322	183,322
Other Miscellaneous	-	653,143	-	653,143
TOTAL RECEIPTS	<u>35,000</u>	<u>16,712,846</u>	<u>619,006</u>	<u>17,366,852</u>
DISBURSEMENTS:				
Personal Services	-	1,319,221	-	1,319,221
Operating	321	966,259	669	967,249
Travel	-	88,801	-	88,801
Capital Outlay	-	601,758	-	601,758
Government Aid	<u>34,679</u>	<u>14,865,581</u>	<u>-</u>	<u>14,900,260</u>
TOTAL DISBURSEMENTS	<u>35,000</u>	<u>17,841,620</u>	<u>669</u>	<u>17,877,289</u>
Excess of Receipts Over (Under) Disbursements	<u>-</u>	<u>(1,128,774)</u>	<u>618,337</u>	<u>(510,437)</u>
OTHER FINANCING SOURCES (USES):				
Sale of Assets	-	454,712	-	454,712
Operating Transfers In	-	482,188	-	482,188
Operating Transfers Out	-	(25,824)	(455,714)	(481,538)
Net Distributive Activity	-	(64)	-	(64)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>911,012</u>	<u>(455,714)</u>	<u>455,298</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(217,762)	162,623	(55,139)
FUND BALANCE, JULY 1, 2000	<u>-</u>	<u>4,518,554</u>	<u>6,106,804</u>	<u>10,625,358</u>
FUND BALANCE, JUNE 30, 2001	<u>\$ -</u>	<u>\$ 4,300,792</u>	<u>\$ 6,269,427</u>	<u>\$ 10,570,219</u>

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

NEBRASKA DEPARTMENT OF AERONAUTICS  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE**  
 BUDGET AND ACTUAL  
 General and Cash Funds  
 For the Fiscal Year Ended June 30, 2001

	GENERAL FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations		\$ 35,000	
Aviation Fuel Tax		-	
Intergovernmental:			
Federal Aid/Reimbursement		-	
Reimbursement from Local Government		-	
Sales and Charges		-	
Miscellaneous:			
Investment Interest		-	
Other Miscellaneous		-	
TOTAL RECEIPTS		<u>35,000</u>	
DISBURSEMENTS:			
Personal Services		-	
Operating		321	
Travel		-	
Capital Outlay		-	
Government Aid		34,679	
TOTAL DISBURSEMENTS	\$ 35,000	<u>35,000</u>	\$ -
Excess of Receipts Over (Under) Disbursements		<u>-</u>	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		-	
Operating Transfers In		-	
Operating Transfers Out		-	
Net Distributive Activity		-	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses			-
FUND BALANCES, JULY 1, 2000		<u>-</u>	
FUND BALANCES, JUNE 30, 2001		<u>\$ -</u>	

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

CASH FUND			TOTALS (MEMORANDUM ONLY)			
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	
	\$ -			\$ 35,000		
	1,715,643			1,715,643		
	13,870,799			13,870,799		
	112,507			112,507		
	98,045			98,045		
	262,709			262,709		
	653,143			653,143		
	16,712,846			16,747,846		
	1,319,221		1,538,275	1,319,221	219,054	
	966,259		1,846,356	966,580	879,776	
	88,801		138,105	88,801	49,304	
	601,758		781,861	601,758	180,103	
	14,865,581		19,512,602	14,900,260	4,612,342	
\$ 23,782,199	17,841,620	\$ 5,940,579	\$ 23,817,199	17,876,620	\$ 5,940,579	
	(1,128,774)			(1,128,774)		
	454,712			454,712		
	482,188			482,188		
	(25,824)			(25,824)		
	(64)			(64)		
	911,012			911,012		
	(217,762)			(217,762)		
	4,518,554			4,518,554		
\$ 4,300,792			\$ 4,300,792			

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

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

- A. **Reporting Entity.** The Nebraska Department of Aeronautics (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 Aeronautics. No component units were identified. The Nebraska Department of Aeronautics 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 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. Nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.



NEBRASKA DEPARTMENT OF AERONAUTICS

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 types and the accrual basis for nonexpendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types presented on the financial statements are those required by GAAP, and include:

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

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

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

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.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**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.

**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 Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

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

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

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general and cash 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

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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. Cash fund expenditures are not limited to the amount of the appropriation for the Nebraska Department of Aeronautics.

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, 2001, 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.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is 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. Under GAAP, the costs of general fixed assets would be recorded in the General Fixed Asset Account Group.
- 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. Cash fund 2171 of the Department was designated for investment during fiscal year 2001.
- 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 Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.
- 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 and amounts related to non-expendable trust funds would be reflected separately in those funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

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

**Taxes.** Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. This consists of Aviation Fuel Taxes.

**Intergovernmental.** Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. This is primarily receipts from the federal Airport Improvement Program.

**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 is primarily investment income/loss and rental of land, building, and equipment.

**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.

NEBRASKA DEPARTMENT OF AERONAUTICS

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 deposits.

**M. Fund Balance Designations.** Fund balance designations are established by management to indicate plans for financial resource utilization in a future period. Such designations reflect managerial plans or intent and may never be legally authorized or result in expenditures.

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. **Cash, Investments, and Securities Lending**

Neb. Rev. Stat. Section 72-1247 R.S. Supp., 2000, authorizes the State Investment Officer to invest the Trust's funds in accordance with the prudent person rule. The State Investment Officer may not buy on margin, buy call options, or buy put options.

Governmental Accounting Standards Board (GASB) Statement Number 3 requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the State's name.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Cash, Investments, and Securities Lending (Concluded)**

Neb. Rev. Stat. Section 72-1247 R.S. Supp., 2000, authorizes the State Investment Officer to participate in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the following schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the Trust Fund had no credit risk exposure to borrowers because the amounts the Trust Fund owed the borrowers exceeded the amounts the borrowers owed the Trust Fund. The collateral securities cannot be pledged or sold by the Trust Fund unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Generally, either the Trust Fund or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 68 and 75 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the Trust Fund by the contract with the custodian.

These investments meet the criteria of GASB Statement Number 3, Category 1.

The carrying amount of investments at June 30, 2001, is at market value as set forth below:

Investments - Category 1	
U.S. Government Securities	
Not on Securities Loan	\$ 3,656,082
Not Categorized	
Investments held by broker-dealers	
Under Securities Loan With Cash Collateral	
U.S. Government Securities	2,125,581
Cash & Cash Equivalents	<u>487,763</u>
Total	<u>\$ 6,269,427</u>

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Nebraska Department of Aeronautics Trust Fund 6170**

The fund balance in the Trust Fund represents the proceeds from the sale of land which the Federal Government distributed to the State (see Schedule). These proceeds are invested. Gains and losses on the sale of investments are principal transactions which are added or subtracted from the Trust Fund balance. The interest earned on the balance is transferred to the Department's cash fund for Department operations.

5. **Receipts, Disbursements, and Operating Transfers Out - Trust Fund 6170**

Trust Fund 6170 is a common fund with the State Treasurer. Miscellaneous Receipts reflect amounts received by the State Treasurer and Disbursements reflect amounts charged by the Nebraska Investment Council. Operating Transfers Out reflect amounts transferred to the Department's cash fund by the State Treasurer.

6. **Loan Repayment Schedules**

The Department loans funds to municipal airports for the construction of aircraft storage hangars (hangar loans) and fuel storage facilities (fuel farm loans). Loaned funds are not scheduled for repayment until the structure at the municipal airport is completed.

Upon completion, the Department assumes title to the structure. The municipal airport must contract to lease the structure from the Department. Lease contracts normally have a term of seven to fifteen years for hangars, and not more than ten years for fuel farms. The scheduled lease payments will equal the amount loaned to the municipal airport. At the end of the lease term, the municipal airport assumes title to the structure.

The Department records the activity for the loans and loan repayments as Capital Outlay and Sale of Assets. For fiscal year ended June 30, 2001, the Department recorded \$537,180 as Capital Outlay for amounts loaned to airports, and \$451,385 to Sale of Assets for loan repayments.

Loans due to the Department as of June 30, 2001, are as follows:

<u>Fiscal Year Ending</u>	<u>Hangar Loans</u>	<u>Fuel Farm Loans</u>
June 30, 2002	\$ 356,102	\$ 60,383
June 30, 2003	329,487	56,433
June 30, 2004	323,281	39,525
June 30, 2005	302,655	34,891
June 30, 2006	302,655	32,881
After June 30, 2006	1,473,779	62,134
Unscheduled	49,690	-
<b>TOTAL</b>	<b>\$ 3,137,649</b>	<b>\$ 286,247</b>



**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**7. 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, and natural disasters. 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:

- A. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. 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. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

In addition to the above coverage, The Department has obtained insurance for its aircraft and the State-owned airfields. For aircraft, single limit bodily injury and property damage coverage is \$20,000,000 for each occurrence. Medical expenses coverage is \$5,000 for each person, and physical damage coverage for the aircraft is the insured value less deductibles. Airfield insurance is limited to \$1,000,000 each for general aggregate limit, products-completed operations aggregate limit, and each occurrence limit. The medical expense limit is \$5,000 for any one person.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is

NEBRASKA DEPARTMENT OF AERONAUTICS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

funded in the Workers' Compensation 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 Aeronautics' 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.

**8. 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. 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, 2001, employees contributed \$40,079 and the Department contributed \$62,523.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. **Net Distributive Activity**

The Department's net distributive activity for the audit period consists of sales taxes.

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

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

<b>General Fund</b>	
Beginning (Reappropriated) Balance July 1, 2000	\$ -
New Appropriations	35,000
Total Appropriations	<u>35,000</u>
Disbursements	<u>(35,000)</u>
Ending (Appropriations) Balance June 30, 2001	<u>\$ -</u>

11. **Support Services Provided**

The Governor's Office has historically received support services from code agencies directly under its control. The Nebraska Department of Aeronautics is a code agency.

As required by Neb. Rev. Stat. Section 3-106, R.R.S. 1997, the Nebraska Department of Aeronautics provides air transportation for the Governor's Office at the Department's expense.

As of July 1, 1995, any air transportation services provided by the Department exceeding \$32,500 during a fiscal year have been paid from the Governor's Office budget.

12. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State's revenue and expenditure recognition, and assets, liabilities and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

NEBRASKA DEPARTMENT OF AERONAUTICS  
**SCHEDULE OF AID DISBURSEMENTS BY AIRPORT**  
**AIRPORT IMPROVEMENT PROGRAM**  
For the Fiscal Year Ended June 30, 2001

<u>City/Airport</u>	<u>Aid Payments</u>
Albion	\$ 11,193
Alliance	1,000,051
Arapahoe	27,151
Chadron	1,993,032
Columbus	1,696
Cozad	76,471
Crete	43,153
Curtis	18,756
David City	172,512
Falls City	57,776
Genoa	972
Gordon	86,232
Grant	43,051
Hall County	14,615
Hastings	255,785
Holdrege	23,676
Imperial	163,874
Kearney	137,936
Kimball	5,248
Lincoln	1,305,019
McCook	83,948
Minden	60,372
Norfolk	334,082
North Platte	932,610
Ogallala	129,818
Omaha	7,203,861
Plattsmouth	3,650
Sargent	61,354
Scottsbluff	569,271
Thedford	260
Valentine	5,390
Wayne	845
York	41,921
	<u>\$ 14,865,581</u>

NEBRASKA DEPARTMENT OF AERONAUTICS

**SCHEDULES OF DISBURSEMENTS**

Fiscal Years Ended June 30, 1997 through 2001

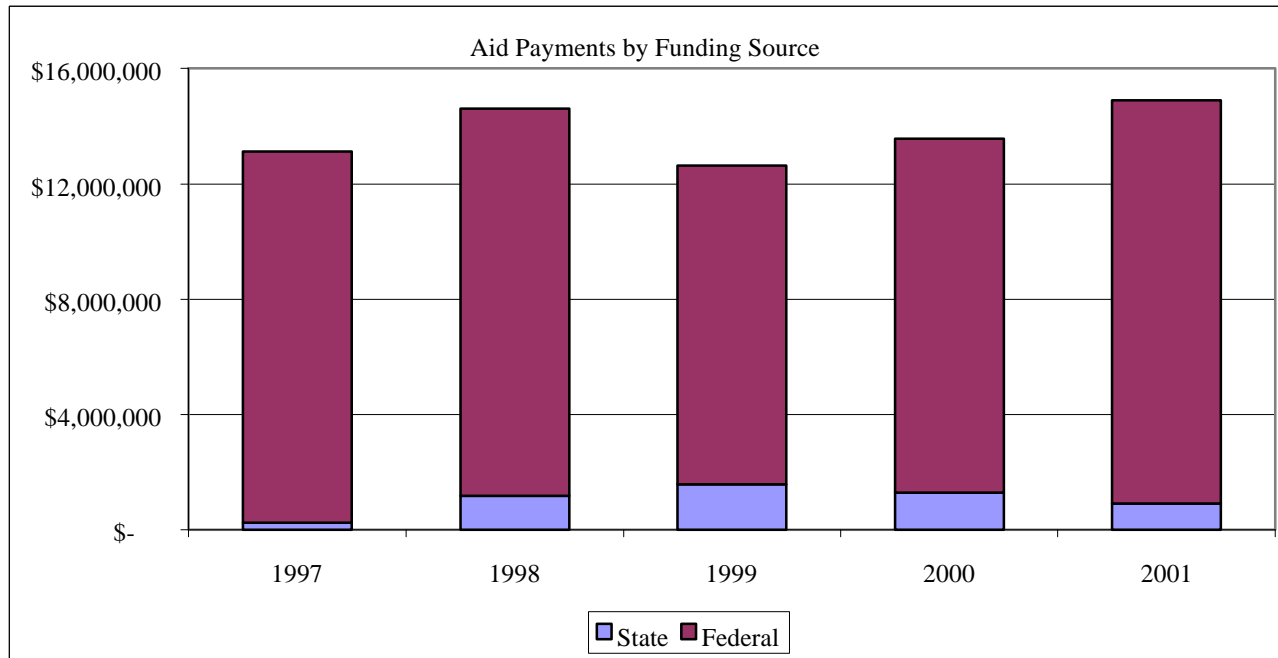
	Unaudited 1997	Unaudited 1998	1999	Unaudited 2000	2001
<b>Disbursements by Program</b>					
026-Development & Enforcement	\$ 584,664	\$ 509,439	\$ 519,714	\$ 525,584	\$ 573,574
301-Public Airports	15,008,498	16,385,784	14,108,918	15,844,952	16,807,441
596-State Owned Aircraft	731,650	457,871	543,107	472,448	495,605
<b>Total</b>	<b>\$ 16,324,812</b>	<b>\$ 17,353,094</b>	<b>\$ 15,171,739</b>	<b>\$ 16,842,984</b>	<b>\$ 17,876,620</b>

**Disbursements by Major Account Category**

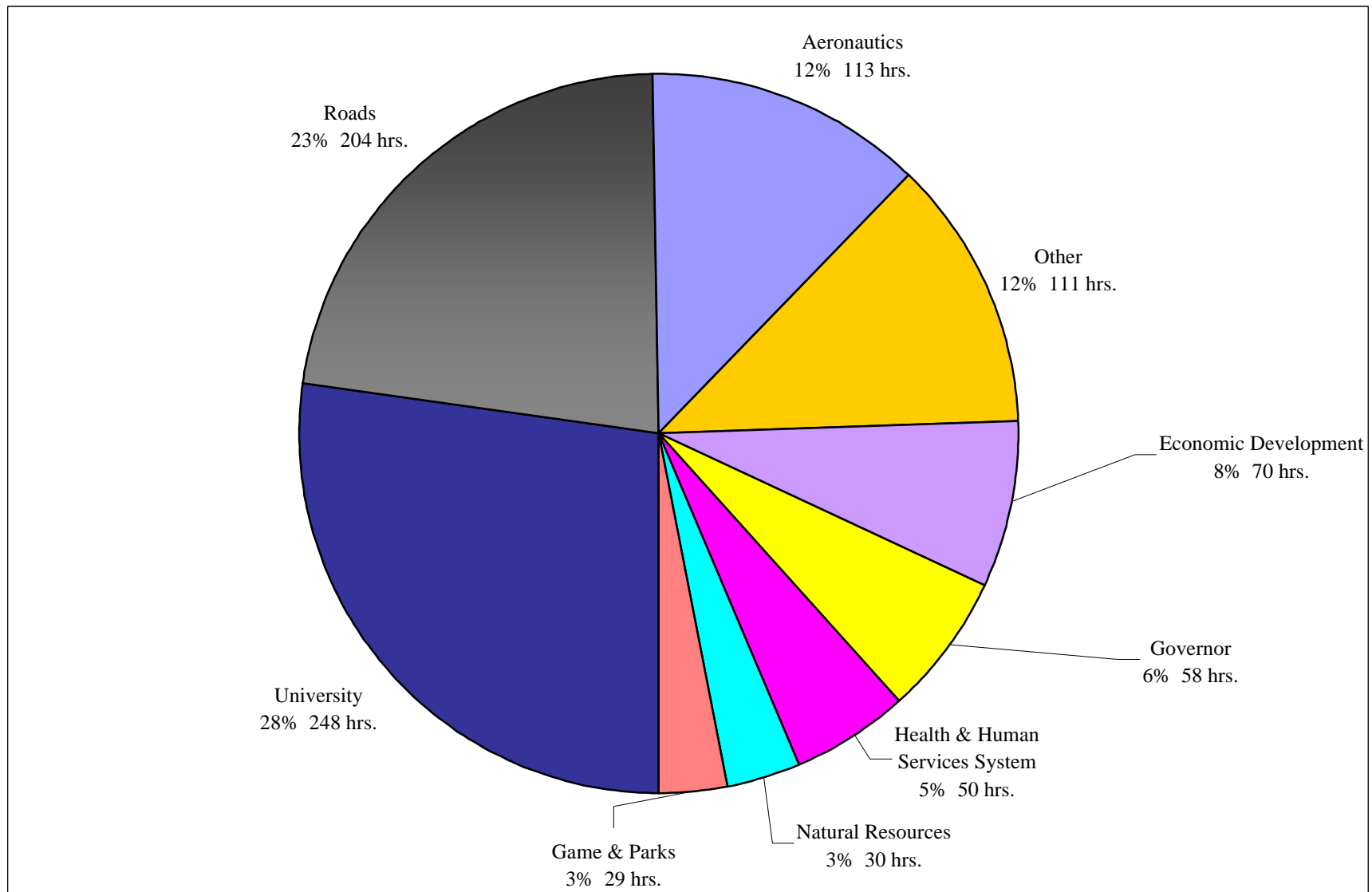
Personal Services	\$ 1,211,930	\$ 1,228,217	\$ 1,233,873	\$ 1,273,143	\$ 1,319,221
Operating Expenses	1,002,604	760,395	947,177	1,074,634	966,580
Travel	77,394	88,215	94,100	93,305	88,801
Capital Outlay	920,896	676,522	251,076	843,334	601,758
Government Aid	13,111,988	14,599,745	12,645,513	13,558,568	14,900,260
<b>Total</b>	<b>\$ 16,324,812</b>	<b>\$ 17,353,094</b>	<b>\$ 15,171,739</b>	<b>\$ 16,842,984</b>	<b>\$ 17,876,620</b>

**Aid Payments by Funding Source**

State	\$ 242,164	\$ 1,167,618	\$ 1,572,526	\$ 1,284,395	\$ 909,813
Federal	\$ 12,869,824	\$ 13,432,127	\$ 11,072,987	\$ 12,274,173	\$ 13,990,447
<b>Total</b>	<b>\$ 13,111,988</b>	<b>\$ 14,599,745</b>	<b>\$ 12,645,513</b>	<b>\$ 13,558,568</b>	<b>\$ 14,900,260</b>



**NEBRASKA DEPARTMENT OF AERONAUTIC**  
**SCHEDULE OF AIRCRAFT HOURS USED BY AGENCY - UNAUDITED**  
For the Fiscal year Ended June 30, 2001



Note: Other agencies include: State College Board, Workers' Compensation Court, Secretary of State, Mexican-American Commission, Supreme Court, and the following Departments: Administrative Services, Agriculture, Labor, Military, Motor Vehicles, Environmental Quality, and Education.

# STATE OF NEBRASKA

## AUDITOR OF PUBLIC ACCOUNTS

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

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

### NEBRASKA DEPARTMENT OF AERONAUTICS

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

Deann Haeffner, CPA  
Deputy State Auditor  
[haeffner@mail.state.ne.us](mailto:haeffner@mail.state.ne.us)

Don Dunlap, CPA  
Asst. Deputy Auditor  
[aud1010@vmhost.cdp.state.ne.us](mailto:aud1010@vmhost.cdp.state.ne.us)

Pat Reding, CPA  
Asst. Deputy Auditor  
[aud1008@vmhost.cdp.state.ne.us](mailto:aud1008@vmhost.cdp.state.ne.us)

Mary Avery  
SAE/Finance Manager  
[MaryJAvery@aol.com](mailto:MaryJAvery@aol.com)

Dennis Meyer  
Budget Coordinator  
[dmeyer@mail.state.ne.us](mailto:dmeyer@mail.state.ne.us)

Mark Avery  
Subdivision Audit  
Review Coordinator  
[mavery@mail.state.ne.us](mailto:mavery@mail.state.ne.us)

Robert Hotz, JD  
Legal Counsel  
[robhotz@mail.state.ne.us](mailto:robhotz@mail.state.ne.us)

We have audited the financial statements of the Nebraska Department of Aeronautics as of and for the year ended June 30, 2001, and have issued our report thereon dated January 10, 2002. 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 Aeronautics. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Aeronautics' 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Aeronautics' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the

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

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

Pat Redding, CPA

Manager

January 10, 2002