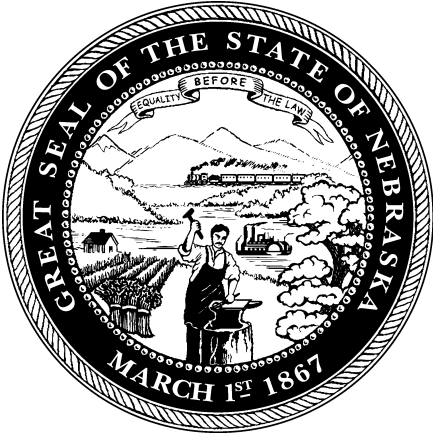




STATE OF NEBRASKA

Statewide Single Audit

June 30, 2002



FINANCIAL SECTION



Independent Auditors' Report

The Honorable Governor,
Members of the Legislature and
Citizens of the State of Nebraska:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2002, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 13.2% and 16.1%, of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund and the State and County Employee's Retirement Plans, is based on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15, the State of Nebraska has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2002 on our consideration of the State of Nebraska's internal control over financial reporting and on 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.

Management's Discussion and Analysis, the Budgetary Comparison Schedule-General Fund, and Information About Infrastructure Assets Reported Using the Modified Approach, on pages 64 through 66 and the Schedules of Funding Progress and Three-Year Trend Information on page 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The combining statements within the financial section as listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Budgetary Comparison Schedule—Budgetary (Cash) Basis—Cash, Construction, Federal and Revolving Fund Types on pages 98 and 99 and the introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 20, 2002
Lincoln, Nebraska

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

Because the State of Nebraska (State) is implementing new standards required by Governmental Accounting Standards Board (GASB) Statement No. 34 for the first time in this CAFR, much of the information is not easily comparable to the prior year. However, in future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2002 by \$8.3 billion (presented as "net assets" in the CAFR), a decrease of \$84 million from last year. Less than 2.4 percent of total expenses was spent on general government expenses. Of the net assets, "unrestricted net assets" was reported as \$366 million. The majority of this total is represented by special revenue funds totaling \$261 million, much of which is, by statute, to be spent on nursing facilities, medical assistance programs and tobacco prevention and control.

Fund Highlights

General Fund receipts for 2002 were \$266 million below the original budgeted amount. Expenditures were also down \$142 million from the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$223 million in excess expenditures resulting in a fund balance of \$81 million. Other governmental funds had \$53 million in excess revenues with fund balances at June 30, 2002 of \$1.4 billion.

The \$220 million of net assets of the Unemployment Compensation Fund represents ninety percent of the proprietary funds. Such fund had a \$11 million increase in net assets for 2002.

Long-term Liabilities

Long-term liabilities totaled \$287 million at June 30, 2002. Most of these liabilities consist of (1) \$116 million of claims payable for worker's compensation claims and employees' health insurance claims, since the State became self insured for health coverage on January 1, 2002, and (2) the calculated amount for vested sick leave due employees when they retire and accrued vacation, totaling \$98 million. Debt related to capital assets totaled \$65 million at June 30, 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This CAFR also contains other supplementary information (e.g., budgetary schedules and combining financial statements) in addition to the basic financial statements. These components are described below:

Government-Wide Financial Statements

These statements provide a broad view of the State's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the State's financial position. The statements are prepared using the accrual basis of accounting. This means all revenues and expenses related to the fiscal year are recorded in the statements, even if cash has not been received or paid. If taxes are owed to the State but not yet received, such transaction is recorded as an asset (a receivable) and revenue to the State. Likewise, if the State owes for vacation time, but has not yet paid the worker for such vacation earned, then the liability and payroll expense is recorded. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* (page 31) presents all the State's assets and liabilities with the difference between the two reported as "Net Assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* (pages 32 and 33) presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units.

Primary Government

GOVERNMENTAL ACTIVITIES – Activities in this section are mostly supported by taxes and federal grants. All General Fund activity is included here. Governmental activities represent over 95% of all activity of the primary government. It includes general government; education; health and human services; public safety; transportation; regulatory services; and economic development and assistance.

BUSINESS-TYPE ACTIVITIES – Functions reported in this section include those activities whereby the State charges fees and other charges to external users of the State's services and purchasers of State's goods in order to recover all or a significant portion of the State's operating costs related to these activities, much like a private business. Such activities are unemployment compensation services, lottery tickets, premium surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

DISCRETELY PRESENTED COMPONENT UNITS – These are separate organizations for which the State has financial accountability but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State’s only two discretely presented component units. While presented in this report, each of these two units have separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State’s operations. The Fund Financial Statements (which begin on page 34) provide detailed information about the State’s major funds. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. The State’s funds are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. It is important to note that each of these three fund categories use different accounting approaches and should be analyzed differently.

Governmental Funds Financial Statements – Most of the basic services provided by the State are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, the Governmental Funds Financial Statements use modified accrual accounting, which limits assets to cash and all other financial assets that can readily be converted into cash. This is different from the governmental activities recorded in the government-wide financial statements which use full accrual accounting. These fund statements provide a detailed short-term view of the State’s finances that assist the reader in determining whether or not there will be adequate financial resources to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so the reader can better understand the long-term impact of the State’s near-term financing decisions. To aid the reader in such analysis, reconciliations are provided between the Government-wide Financial Statements and the Governmental Funds Financial Statements (see pages 35 and 37).

The State of Nebraska’s governmental funds include five major funds: the General Fund, the Highway Fund, the Federal Fund, the Health and Social Services Fund and the Permanent School Fund. Non-major special revenue, capital project and other permanent funds are also included in the governmental funds.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Thus, when the State charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds consist of both Enterprise Funds (services provided to outside customers) and Internal Service Funds (services provided to other State agencies). Proprietary funds utilize accrual accounting, the same method used by private businesses. Therefore, the net assets reported in these statements as

Enterprise Funds will be identical to the net assets reported in the net assets for business-type activities in the Government-wide Financial Statements. However, because the Internal Service Funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

Fiduciary Funds Financial Statements – Whenever the State receives funds on behalf of others, it is acting in a fiduciary capacity or trustee of those funds belonging to others. Thus, assets in these funds are restricted as to use and do not represent discretionary assets that the State could use to finance its operations. They are presented in these statements only for the purpose to indicate that the State has responsibility for these assets. For that reason, such assets are not included in the government-wide financial statements. Fiduciary funds are reported on the accrual basis of accounting.

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for employees (see Note 11 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions and funds due to outside organizations as a result of payroll deductions.

Component Units Financial Statements

As mentioned in the discussion of the Government-wide Financial Statements, the State has included the net assets and activities of the University of Nebraska and the Nebraska State College System in a single column of such statements, labeling them as discretely presented component units. We have provided separate, but brief, component unit statements to allow the reader to analyze each of these two units separately.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements beginning on page 46.

Required Supplementary Information

Following the basic financial statements, and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the General Fund balances determined by GAAP used in the Fund Financial Statements. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes the combining statements for non-major governmental, proprietary and fiduciary funds. These funds are summarized by fund type and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the Governmental Fund Financial Statements. Also presented is a statistical section providing a variety of data about the State of Nebraska.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net Assets

The State's assets totaled \$9,658 million at June 30, 2002. As total liabilities only totaled \$1,309 million, net assets amounted to \$8,349 million as of June 30, 2002. By far the largest portion of the State of Nebraska's net assets (81 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, etc.) The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future spending.

STATE OF NEBRASKA
Net Assets as of June 30, 2002
(in millions of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Current and Other			
Non-current Assets	\$ 2,543	\$ 317	\$ 2,860
Capital Assets	<u>6,791</u>	<u>7</u>	<u>6,798</u>
Total Assets	<u>9,334</u>	<u>324</u>	<u>9,658</u>
Noncurrent Liabilities	225	62	287
Other Liabilities	<u>1,006</u>	<u>16</u>	<u>1,022</u>
Total Liabilities	<u>1,231</u>	<u>78</u>	<u>1,309</u>
Net assets:			
Invested in Capital Assets,			
Net of Related Debt	6,749	7	6,756
Restricted	1,005	223	1,228
Unrestricted	<u>349</u>	<u>16</u>	<u>365</u>
Total Net Assets	<u>\$ 8,103</u>	<u>\$ 246</u>	<u>\$ 8,349</u>

The State's non-capital assets represent 30% of the State's total assets and chiefly consist of cash, investments and receivables. It should be noted that \$293 million of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net

asset is zero and thus the asset cannot be spent (For more detail, see Note 2 to the financial statements.)

Since the State of Nebraska's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities). The majority of such liabilities are for claims (\$116 million) and the calculated amount for vested sick leave due employees when they retire and accrued vacation (\$98 million). Other long-term liabilities consist chiefly of capital lease obligations (See Note 9 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds. Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements).

At the end of June 30, 2002, the State of Nebraska is able to report positive balances in all of the three categories of net assets.

The net assets for business-type activities represents chiefly cash set aside for future unemployment compensation benefits.

Changes In Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year.

STATE OF NEBRASKA
CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2002
(in millions of dollars)

	Governmental Activities	Business-type Activities	Total Primary Government
REVENUES			
Program Revenues			
Charges for Services	\$ 434	\$ 220	\$ 654
Operating Grants and Contributions	1,784	-	1,784
Capital Grants and Contributions	1	-	1
General Revenues			
Taxes	2,867	-	2,867
Unrestricted Investment Earnings	66	15	81
Miscellaneous	10	-	10
Total Revenues	5,162	235	5,397
EXPENSES			
General Government	124	-	124
Conservation of Natural Resources	100	-	100
Culture - Recreation	24	-	24
Economic Development and Assistance	87	-	87
Education	1,173	-	1,173
Higher Education - Colleges and University	466	-	466
Health and Social Services	2,167	-	2,167
Public Safety	234	-	234
Regulation of Business and Professions	105	-	105
Transportation	664	-	664
Intergovernmental	127	-	127
Interest on Long-term Debt	3	-	3
Unemployment Compensation	-	132	132
Lottery	-	56	56
Excess Liability	-	11	11
Cornhusker State Industries	-	9	9
Total Expenses	5,274	208	5,482
Excess (deficiency) Before Transfers	(112)	27	(85)
Transfers	18	(18)	-
Increase (Decrease) in Net Assets	(94)	9	(85)
Net Assets - Beginning - Restated	8,197	237	8,434
Net Assets - Ending	\$ 8,103	\$ 246	\$ 8,349

Governmental Activities

Governmental activities reduced the State's net assets by \$94 million after an \$18 million transfer in from business-type activities. Furthermore, governmental activities represent 95% of all the primary government's revenues. Program revenues were \$2,219 million and were used to partially offset program expenses of \$5,274 million, leaving net expenses of \$3,055 million. General taxes, transfers and earnings of \$2,961 million were used to cover most of the remaining costs of the programs as shown below.

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	
General Government	\$ (69)
Conservation of Natural Resources	(30)
Culture - Recreation	(4)
Economic Development and Assistance	(24)
Education	(940)
Higher Education - Colleges and University	(466)
Health and Social Services	(790)
Public Safety	(175)
Regulation of Business and Professions	(60)
Transportation	(367)
Intergovernmental	(127)
Interest on Long-Term Debt	<u>(3)</u>
Subtotal	(3,055)
General Revenues	
Taxes	2,867
Unrestricted Investment Earnings	66
Miscellaneous	10
Transfers	<u>18</u>
Decrease in Net Assets	<u>\$ (94)</u>

Business-type Activities

The business-type activities increased the State's net assets by \$9 million, after an \$18 million transfer to the governmental activities. Most of the \$220 million of business-type activities' program revenues was related to the activities of the Unemployment Compensation Fund; such fund generated \$11 million of the \$27 million income before transfers produced by business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State of Nebraska uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Government Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may

provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be restricted or unrestricted. If they are restricted, they are unreserved only as long as they are used for the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in restricted funds.) At the end of 2002, the State of Nebraska's Governmental Funds reported combined ending fund balances of \$1,436 million. The total unreserved balances amounted to \$1,130 million.

General Fund

The General Fund is the chief operating fund of the State of Nebraska. The General Fund unreserved balance was \$81 million. The major General Fund asset was the expected taxes owed the State; estimated tax refunds exceed such receivables by \$36 million; other assets available exceeded the near-term liabilities of the General Fund by \$104 million.

At the beginning of the year, the General Fund had a \$304 million fund balance. Significant differences between the original budget and the final amended budget resulted due to the slow economy. Mandated cuts in appropriated expenditures affected almost all programs. Actual expenditures were \$142 million less than the original appropriated budget. Actual revenues fell short of the original budget by \$266 million. This, coupled with other changes in reserves for certain liabilities and receivables, caused the General Fund balance to decrease by \$223 million.

Revenues were less than anticipated chiefly due to (1) lower corporate income taxes because companies were less profitable, (2) lower individual income taxes resulting from lower reportable capital gains and lower revenues by small business owners, and (3) lower sales taxes collected because of lower retail sales. Expenditures were less than budgeted due to a concerted effort by agency heads responding to the Governor's message to be conservative in spending.

Other Governmental Funds

Governmental funds other than the General Fund saw an increase in fund balances of \$53 million. A decrease in the Federal Fund (\$9 million) was partially offset by increases in the Health and Social Services Fund (\$32 million), the Licensing and Regulation Fund (\$14 million) and other funds (\$16 million).

Of the total other governmental fund balances of \$1,355 million, \$306 million is reserved to indicate such funds are not available for new spending because such funds (1) are represented by endowment principal (\$143 million), which means the funds cannot be spent, (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$148 million), (3) have been expended for other assets, chiefly inventories (\$11 million) and thus the funds are not available, or (4) have been committed for debt service (\$4 million).

Of the non-General Fund unreserved fund balances of \$1,049 million, \$171 million represents permanent school funds which can be used only for support of public schools. \$837 million is represented by special revenue funds which are only unreserved as long as the funds are spent within the confines of such special revenue funds (a majority of these same funds are considered "restricted" on the government-wide financial statements). Eighteen million is represented by other permanent funds, which again are unreserved only if spent within the confines of the fund. Twenty-three million dollars are in the Capital Projects Fund, which is unreserved as long as it is spent on a capital project.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of \$483 million, \$468 of which are classified as unreserved, but which are restricted in the government-wide statements in

that the funds are unreserved only within the confines of such funds. These three funds had \$25 million of revenues in excess of expenditures and transfers.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets declined \$274 million to \$5,315 million in 2002 due to the declining market value of investments (a \$431 million loss), which was partially offset by interest and dividend income. Contributions to the plan exceeded benefits and refunds by \$37 million. In another trust fund, \$203 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The State's one major proprietary fund, the Unemployment Compensation Fund, had reported net assets of \$220 million at the end of 2002. This fund's net assets increased \$11 million in 2002. Other proprietary or enterprise funds – the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$16 million prior to an \$18 million transfer from the Lottery to governmental funds for education and environmental studies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2002, the State had invested \$6.8 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation for this fiscal year totaled \$40 million.

Capital Assets, net of depreciation as of June 30, 2002 (in millions of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 438	\$ -	\$ 438
Buildings and Equipment	342	7	349
Infrastructure	<u>5,981</u>	<u>-</u>	<u>5,981</u>
Subtotal	6,761	7	6,768
Construction in Progress	<u>30</u>	<u>-</u>	<u>30</u>
Total	<u>\$ 6,791</u>	<u>\$ 7</u>	<u>\$ 6,798</u>

The most significant change during the year was a change in accounting for capital assets resulting in the inclusion of infrastructure assets and related land, which heretofore had not been recorded. Such change increased capital assets by \$6.7 billion.

GASB Statement No. 34, requires the State to select one of two methods to account for its infrastructure assets. One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to maintain at least an overall system rating of 72 percent or above. The most recent condition assessment, completed for calendar year 2001, indicated an overall system rating of 84%, the same rating as in the prior year.

For 2002, it was estimated that the State needed to spend \$169 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$194 million on roads in 2002.

During 2002, the State added \$153 million of new depreciable capital assets. The State spent \$89 million on infrastructure and land purchases in 2002, most notably a new four-lane highway in central Nebraska. Twenty-six million of general funds was spent on capital projects. Major project spending included \$5.7 million on a new satellite transmission system, \$5.3 million on Capitol renovations and \$5.2 million on a new correctional facility.

At June 30, 2002, the State had contractual commitments of \$537 million of non-General Funds for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the basic financial statements.)

The State's General Fund capital outlay budget authorized spending \$20 million on capital projects in 2003, in addition to \$15 million of unspent capital outlay authorizations that existed on June 30, 2002.

Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated.

CERTAIN LONG-TERM DEBT AS OF JUNE 30, 2002 *(in millions of dollars)*

Bonds Payable:

Nebraska State Building Corporation	\$ 4
NETC Leasing Corporation	29
	33
	33

Capitalized Leases:

	\$ 32
	32

The State refinanced the Building Corporation bonds and some of the capitalized leases in 2002 in order to take advantage of lower interest rates. A new \$18 million lease was signed to help finance the State's new \$29 million Nebraska Information System, expected to be completed in 2003. Such system will provide new electronic processing for accounting, human

resources/payroll, inventory, grants management and budget. The NETC Leasing Corporation issued \$10 million of new bonds to finance additional educational television facilities. Bonds issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's.

ECONOMIC CONDITION AND CURRENT OUTLOOK

General tax revenues will likely increase in the short-term as the sales tax rate was increased ½ cent (a 10% increase) until October 1, 2003 and the sales tax base was increased to include many services. The cigarette tax rate was increased 30 cents a pack (an 88% increase) until October 1, 2004. Ninety-three percent of the increased cigarette tax revenue is being placed in the Cash Reserve Fund in order to provide additional cash reserves for the future. The Nebraska Economic Forecasting Board has forecasted unrestricted net sales and income tax revenues in 2003 at approximately \$2,370 million, which is \$199 million more than actual 2002 and \$94 million more than actual 2001. As expected revenues declined, the Nebraska Legislature mandated spending reductions for 2001 and 2002 to balance the budget.

According to the Bureau of Business Research of the University of Nebraska, the State has weathered the national recession well. They report that while the State did not slide into the depths of a recession, neither will it experience a spectacular rise in the next few years. As of November 2002, Nebraska's unemployment rate was 3.3% compared to the national rate of 6.0%. The Bureau did indicate, however, that even with federal farm payments, it is likely that Nebraska's agriculture sector will restrain future economic growth rates.

The State has maintained a Cash Reserve Fund, which is to be used when revenues are not sufficient to meet General Fund expenditures. Such reserve was at \$170 million at the end of 2001. Due to transfers to the General Fund to make up for lagging revenues, this balance was reduced to \$110 million at the end of 2002 and is projected to be at \$62 million at the end of 2003, \$94 million at the end of 2004, and \$125 million at the end of 2005. While there are additional scheduled transfers to the General Fund in 2003, such transfers will be offset by additional cigarette tax revenues.

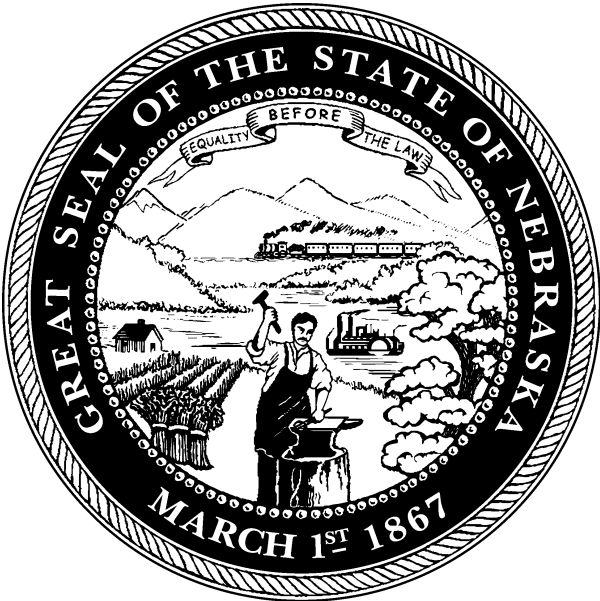
On September 30, 2002 the U.S. District Court for Nebraska awarded a \$151 million judgment against the State of Nebraska (See Note 12 to the basic Financial Statements). While the State will vigorously contest this award, should the State lose all its appeals, the impact of such judgment would have a significant impact on the financial statements of the State.

CONTACTING THE STATE ACCOUNTING OFFICE

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional information, contact the State Accounting Division of the Department of Administrative Services, Suite 1309 State Capitol, Lincoln, NE 68509-4664, (402) 471-2581.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component units. For the University of Nebraska, contact the University of Nebraska, Director of University Accounting, 209 Varner Hall, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2191. For the State College System, contact the Nebraska State College System, Fiscal and Facilities Management, 11th Floor State Capitol, Lincoln, NE 68509-4605, (402) 471-2505.

BASIC FINANCIAL STATEMENTS



State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2002

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 392,106	\$ 233,574	\$ 625,680	\$ 224,807
Receivables, net of allowance				
Taxes	249,301	-	249,301	-
Due from Federal Government	302,002	-	302,002	-
Other	64,767	23,293	88,060	96,641
Internal Balances	521	(521)	-	-
Due from Primary Government	-	-	-	5,587
Investments	1,026,924	49,844	1,076,768	271,508
Loans Receivable	147,841	-	147,841	37,259
Inventories	23,690	1,556	25,246	9,037
Prepaid Items	1,298	332	1,630	3,974
Investment in Joint Venture	-	-	-	119,645
Other Assets	946	-	946	23,751
Restricted Assets:				
Cash and Cash Equivalents	47,394	-	47,394	173,123
Other	-	2,458	2,458	1,614
Securities Lending Collateral	286,324	6,503	292,827	-
Capital assets:				
Land	438,290	-	438,290	44,670
Infrastructure	5,980,917	-	5,980,917	82,263
Construction in Progress	29,856	-	29,856	128,433
Buildings and Equipment	706,524	10,116	716,640	1,169,808
Less Accumulated Depreciation	(364,351)	(3,122)	(367,473)	(474,772)
Total Capital Assets, net of depreciation	<u>6,791,236</u>	<u>6,994</u>	<u>6,798,230</u>	<u>950,402</u>
Total Assets	<u>\$ 9,334,350</u>	<u>\$ 324,033</u>	<u>\$ 9,658,383</u>	<u>\$ 1,917,348</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 414,172	\$ 7,122	\$ 421,294	\$ 81,965
Tax Refunds Payable	251,558	-	251,558	-
Due to Other Governments	19,198	-	19,198	-
Deposits	5,827	-	5,827	302
Due to Component Units	5,587	-	5,587	-
Deferred Revenue	23,235	2,547	25,782	66,536
Obligations under Securities Lending	286,324	6,503	292,827	-
Noncurrent Liabilities:				
Due within one year	39,141	29,293	68,434	37,111
Due in more than one year	185,937	32,470	218,407	309,240
Total Liabilities	<u>\$ 1,230,979</u>	<u>\$ 77,935</u>	<u>\$ 1,308,914</u>	<u>\$ 495,154</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 6,749,014	\$ 6,994	\$ 6,756,008	\$ 662,717
Restricted for:				
Education	14,564	-	14,564	61,002
Health and Social Services	46,915	-	46,915	-
Transportation	154,376	-	154,376	-
Licensing and Regulation	129,815	-	129,815	-
Other Purposes	322,563	2,458	325,021	302,531
Unemployment Compensation Benefits	-	220,076	220,076	-
Debt Service and Construction	3,921	-	3,921	220,001
Permanent Trusts:				
Nonexpendable	143,280	-	143,280	-
Expendable	189,612	-	189,612	-
Unrestricted	349,311	16,570	365,881	175,943
Total Net Assets	<u>\$ 8,103,371</u>	<u>\$ 246,098</u>	<u>\$ 8,349,469</u>	<u>\$ 1,422,194</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTION
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 124,494	\$ 52,894	\$ 2,563	\$ -
Conservation of Natural Resources	99,687	24,704	44,543	-
Culture – Recreation	23,961	17,140	2,366	-
Economic Development and Assistance	86,874	3,763	58,985	-
Education	1,172,967	25,496	207,779	-
Higher Education - Colleges and University	466,397	-	-	-
Health and Social Services	2,167,183	160,294	1,215,420	1,360
Public Safety	233,666	23,229	35,744	-
Regulation of Business and Professions	104,768	43,918	1,376	-
Transportation	664,228	82,542	214,573	-
Intergovernmental	126,936	-	-	-
Interest on Long-term Debt	2,468	-	-	-
Total governmental activities	<u>5,273,629</u>	<u>433,980</u>	<u>1,783,349</u>	<u>1,360</u>
Business-type activities:				
Unemployment Compensation	132,284	133,766	-	-
Lottery	56,133	73,957	-	-
Excess Liability	10,756	3,264	-	-
Cornhusker State Industries	9,043	9,783	-	-
Total business-type activities	<u>208,216</u>	<u>220,770</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,481,845</u>	<u>\$ 654,750</u>	<u>\$ 1,783,349</u>	<u>\$ 1,360</u>
COMPONENT UNITS:				
University of Nebraska	1,148,835	400,352	291,539	33,322
State Colleges	67,011	20,814	6,525	-
Total Component Units	<u>\$ 1,215,846</u>	<u>\$ 421,166</u>	<u>\$ 298,064</u>	<u>\$ 33,322</u>

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning - Restated
Net Assets - Ending

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

**NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS**

S	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
	\$ (69,037)	\$ -	\$ (69,037)	\$ -
	(30,440)	-	(30,440)	-
	(4,455)	-	(4,455)	-
	(24,126)	-	(24,126)	-
	(939,692)	-	(939,692)	-
	(466,397)	-	(466,397)	-
	(790,109)	-	(790,109)	-
	(174,693)	-	(174,693)	-
	(59,474)	-	(59,474)	-
	(367,113)	-	(367,113)	-
	(126,936)	-	(126,936)	-
	(2,468)	-	(2,468)	-
	<u>(3,054,940)</u>	<u>-</u>	<u>(3,054,940)</u>	<u>-</u>
	-	1,482	1,482	-
	-	17,824	17,824	-
	-	(7,492)	(7,492)	-
	<u>-</u>	<u>740</u>	<u>740</u>	<u>-</u>
	<u>-</u>	<u>12,554</u>	<u>12,554</u>	<u>-</u>
	<u>-</u>	<u>12,554</u>	<u>(3,042,386)</u>	<u>-</u>
	-	-	-	(423,622)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,672)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(463,294)</u>
	1,254,699	-	1,254,699	-
	1,134,048	-	1,134,048	-
	310,401	-	310,401	-
	85,969	-	85,969	-
	57,322	-	57,322	-
	24,366	-	24,366	-
	65,776	15,120	80,896	18,505
	350	-	350	9,296
	-	-	-	466,397
	9,938	-	9,938	-
	18,486	(18,486)	-	-
	<u>2,961,355</u>	<u>(3,366)</u>	<u>2,957,989</u>	<u>494,198</u>
	(93,585)	9,188	(84,397)	30,904
	<u>8,196,956</u>	<u>236,910</u>	<u>8,433,866</u>	<u>1,391,290</u>
	<u>\$ 8,103,371</u>	<u>\$ 246,098</u>	<u>\$ 8,349,469</u>	<u>\$ 1,422,194</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2002

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 48,471	\$ 53,292	\$ 31,398	\$ 46,052	\$ 36,824	\$108,905	\$ 324,942
Cash on Deposit with Fiscal Agents	-	-	-	-	-	47,394	47,394
Investments	142,348	77,999	2,793	240,742	261,131	301,911	1,026,924
Securities Lending Collateral	55,879	30,619	1,771	62,065	26,915	109,075	286,324
Receivables, net of allowance							
Taxes	209,705	39,366	-	-	-	230	249,301
Due from Federal Government	-	38,136	263,135	-	-	731	302,002
Loans	-	-	2,899	1,372	-	143,570	147,841
Other	10,501	14,499	18,540	9,471	1,750	8,641	63,402
Due from Other Funds	126,954	445	47	12,542	-	5,282	145,270
Inventories	-	9,670	13,046	715	-	-	23,431
Prepaid Items	87	10	44	14	-	99	254
Other	373	-	-	-	-	573	946
TOTAL ASSETS	\$594,318	\$264,036	\$333,673	\$372,973	\$326,620	\$726,411	\$2,618,031
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$143,766	\$ 54,018	\$154,922	\$ 9,025	\$ 154	\$ 21,770	\$ 383,655
Tax Refunds Payable	245,583	5,908	-	-	-	67	251,558
Due to Other Governments	1,715	17,403	-	-	-	80	19,198
Deposits	1,407	544	1,559	298	79	1,940	5,827
Due to Other Funds	49,345	1,168	131,175	175	1,271	16,093	199,227
Due to Component Units	5,587	-	-	-	-	-	5,587
Obligations under Securities Lending	55,879	30,619	1,771	62,065	26,915	109,075	286,324
Deferred Revenue	10,337	-	17,151	-	3,057	137	30,682
TOTAL LIABILITIES	513,619	109,660	306,578	71,563	31,476	149,162	1,182,058
FUND BALANCES:							
Fund Balances:							
Reserved for:							
Long-Term Receivables	-	-	2,899	1,372	-	143,570	147,841
Inventories and Prepaid Items	87	9,680	44	729	-	99	10,639
Debt Service	-	-	-	-	-	4,468	4,468
Endowment Principal	-	-	-	-	123,715	19,565	143,280
Unreserved, reported in:							
General Fund	80,612	-	-	-	-	-	80,612
Special Revenue Funds	-	144,696	24,152	299,309	-	368,850	837,007
Permanent Funds	-	-	-	-	171,429	18,183	189,612
Capital Projects Fund	-	-	-	-	-	22,514	22,514
TOTAL FUND BALANCES	80,699	154,376	27,095	301,410	295,144	577,249	1,435,973
TOTAL LIABILITIES AND FUND BALANCES	\$594,318	\$264,036	\$333,673	\$372,973	\$326,620	\$726,411	\$2,618,031

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

State of Nebraska

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2002

Total fund balances for governmental funds \$ 1,435,973

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	438,290	
Infrastructure	5,980,917	
Construction in progress	29,856	
Other capital assets	642,690	
Accumulated depreciation	<u>(321,960)</u>	6,769,793

Certain tax revenues are earned but not available and therefore are deferred in the funds. 7,757

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 57,563

Certain long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(33,210)	
Accrued interest on bonds	(547)	
Capital leases	(23,905)	
Obligations under other financing arrangements	(7,185)	
Compensated absences	(93,350)	
Contingent liabilities	(7,048)	
Claims and judgments	<u>(2,470)</u>	<u>(167,715)</u>

Net assets of governmental activities \$ 8,103,371

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

State of Nebraska

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended June 30, 2002

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$1,252,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,252,950
Sales and Use Taxes	917,904	151,220	-	-	-	65,890	1,135,014
Petroleum Taxes	6,365	289,927	-	-	-	12,953	309,245
Excise Taxes	44,144	-	-	4,861	-	34,562	83,567
Business and Franchise Taxes	36,472	-	-	-	-	20,849	57,321
Other Taxes	22,034	2,878	-	-	-	-	24,912
Federal Grants and Contracts	747	190,852	1,562,616	335	-	35,067	1,789,617
Licenses, Fees and Permits	18,751	65,791	-	2,575	-	82,631	169,748
Charges for Services	2,611	12,989	16,627	28,447	-	21,384	82,058
Investment Income	22,753	6,880	2,216	4,732	(5,177)	26,256	57,660
Rents and Royalties	-	339	117	156	23,193	9,781	33,586
Other	3,526	4,623	5,687	108,728	6,004	19,600	148,168
TOTAL REVENUES	2,328,257	725,499	1,587,263	149,834	24,020	328,973	5,143,846
EXPENDITURES:							
Current:							
General Government	80,586	-	3,360	-	-	14,675	98,621
Conservation of Natural Resources	35,432	-	18,656	-	-	48,313	102,401
Culture – Recreation	5,617	-	2,174	-	-	21,211	29,002
Economic Development and Assistance	8,802	-	61,336	-	-	16,263	86,401
Education	911,958	-	209,587	-	33,724	17,256	1,172,525
Higher Education - Colleges and University	445,477	-	-	-	-	20,920	466,397
Health and Social Services	793,440	-	1,245,139	119,078	-	2,230	2,159,887
Public Safety	178,691	-	35,308	-	-	24,875	238,874
Regulation of Business and Professions	3,504	-	1,094	-	-	99,766	104,364
Transportation	781	722,858	-	-	-	27,065	750,704
Intergovernmental	106,778	-	-	-	-	20,047	126,825
Capital Projects	-	-	-	-	-	25,961	25,961
Debt Service:							
Principal	-	-	-	-	-	8,805	8,805
Interest	-	-	-	-	-	1,886	1,886
TOTAL EXPENDITURES	2,571,066	722,858	1,576,654	119,078	33,724	349,273	5,372,653
Excess of Revenues Over (Under)							
Expenditures	(242,809)	2,641	10,609	30,756	(9,704)	(20,300)	(228,807)
OTHER FINANCING SOURCES (USES):							
Transfers In	44,319	3,602	-	1,113	5,021	97,132	151,187
Transfers Out	(46,467)	(4,701)	(19,254)	-	-	(59,603)	(130,025)
Proceeds from Bond Issuance	-	-	-	-	-	14,005	14,005
Proceeds from Other Financing Arrangement	-	-	-	-	-	2,180	2,180
Proceeds from Capital Leases	21,534	-	-	-	-	-	21,534
TOTAL OTHER FINANCING SOURCES (USES)	19,386	(1,099)	(19,254)	1,113	5,021	53,714	58,881
Net Change in Fund Balances	(223,423)	1,542	(8,645)	31,869	(4,683)	33,414	(169,926)
FUND BALANCES, JULY 1, AS RESTATED	304,122	152,834	35,740	269,541	299,827	543,835	1,605,899
FUND BALANCES, JUNE 30	\$ 80,699	\$154,376	\$ 27,095	\$301,410	\$295,144	\$577,249	\$1,435,973

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

State of Nebraska

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2002

Net change in fund balances—total governmental funds \$ (169,926)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. Sale of capital assets is reported as revenues. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay net of gains or losses	139,393	
Depreciation expense	<u>(33,562)</u>	105,831

Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Bonds issued	(14,005)	
Other financing arrangements	<u>(2,180)</u>	(16,185)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (21,534)

Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:

Bond principal retirement	6,465	
Other financing arrangement payments	2,340	
Capital lease payments	<u>4,436</u>	13,241

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 5,526

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year. 783

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported in as expenditures in governmental funds. These activities consist of:

Increase in accrued interest	(5)	
Increase in compensated absences	(5,173)	
Increase in contingent liabilities	(7,048)	
Decrease in claims and judgments	<u>905</u>	<u>(11,321)</u>

Change in net assets of governmental activities \$ (93,585)

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

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2002

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 221,268	\$ 12,306	\$ 233,574	\$ 67,833
Receivables, net of allowance	18,449	4,844	23,293	1,295
Due from Other Funds	-	431	431	37,953
Inventories	-	1,556	1,556	259
Prepaid Items	-	332	332	1,044
TOTAL CURRENT ASSETS	239,717	19,469	259,186	108,384
RESTRICTED ASSETS:				
Long-Term Deposits	-	2,458	2,458	-
NONCURRENT ASSETS:				
Long-Term Investments	-	49,844	49,844	-
Securities Lending Collateral	-	6,503	6,503	-
Capital Assets:				
Buildings and Equipment	177	9,939	10,116	63,834
Less Accumulated Depreciation	(151)	(2,971)	(3,122)	(42,391)
Total Capital Assets	26	6,968	6,994	21,443
TOTAL NONCURRENT ASSETS	26	63,315	63,341	21,443
TOTAL ASSETS	\$ 239,743	\$ 85,242	\$ 324,985	\$ 129,827
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 2,802	\$ 4,320	\$ 7,122	\$ 6,210
Due to Other Funds	-	952	952	786
Capital Lease Obligations	-	-	-	2,820
Claims, Judgments and Compensated Absences	16,792	12,501	29,293	19,736
Deferred Revenue	-	2,547	2,547	310
TOTAL CURRENT LIABILITIES	19,594	20,320	39,914	29,862
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	5,160
Claims, Judgments and Compensated Absences	47	32,423	32,470	37,242
Obligations under Securities Lending	-	6,503	6,503	-
TOTAL NONCURRENT LIABILITIES	47	38,926	38,973	42,402
TOTAL LIABILITIES	19,641	59,246	78,887	72,264
NET ASSETS:				
Invested in Capital Assets, net of related debt	26	6,968	6,994	13,463
Restricted for:				
Lottery Prizes	-	2,458	2,458	-
Unemployment Compensation Benefits	220,076	-	220,076	-
Unrestricted	-	16,570	16,570	44,100
TOTAL NET ASSETS	220,102	25,996	246,098	57,563
TOTAL LIABILITIES AND NET ASSETS	\$ 239,743	\$ 85,242	\$ 324,985	\$ 129,827

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

State of Nebraska

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2002

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Charges for Services	\$ 133,766	\$ 86,907	\$ 220,673	\$ 197,745
Other	-	97	97	1,477
TOTAL OPERATING REVENUES	<u>133,766</u>	<u>87,004</u>	<u>220,770</u>	<u>199,222</u>
OPERATING EXPENSES:				
Personal Services	48	3,921	3,969	35,300
Services and Supplies	94	21,829	21,923	92,119
Lottery Prizes	-	39,450	39,450	-
Unemployment Claims	132,132	-	132,132	-
Insurance Claims	-	10,368	10,368	68,116
Depreciation	10	364	374	6,138
TOTAL OPERATING EXPENSES	<u>132,284</u>	<u>75,932</u>	<u>208,216</u>	<u>201,673</u>
Operating Income (Loss)	<u>1,482</u>	<u>11,072</u>	<u>12,554</u>	<u>(2,451)</u>
NONOPERATING REVENUES (EXPENSES):				
Investment Income	9,614	5,506	15,120	2,924
Gain (Loss) on Sale of Fixed Assets	-	-	-	(89)
Other	-	-	-	2,542
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>9,614</u>	<u>5,506</u>	<u>15,120</u>	<u>5,377</u>
Income Before Transfers	11,096	16,578	27,674	2,926
Transfers In	-	-	-	2,600
Transfers Out	-	(18,486)	(18,486)	-
Change in Net Assets	11,096	(1,908)	9,188	5,526
NET ASSETS, JULY 1	<u>209,006</u>	<u>27,904</u>	<u>236,910</u>	<u>52,037</u>
NET ASSETS, JUNE 30	<u>\$ 220,102</u>	<u>\$ 25,996</u>	<u>\$ 246,098</u>	<u>\$ 57,563</u>

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2002

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 131,409	\$ 78,440	\$ 209,849	\$ 9,261
Cash Received from Interfund Charges	-	8,920	8,920	190,256
Cash Paid to Employees	(48)	(3,850)	(3,898)	(34,573)
Cash Paid to Suppliers	-	(19,121)	(19,121)	(79,230)
Cash Paid for Lottery Prizes	-	(39,990)	(39,990)	-
Cash Paid for Insurance Claims	(126,825)	(12,068)	(138,893)	(54,790)
Cash Paid for Interfund Services	(94)	(1,266)	(1,360)	(13,166)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>4,442</u>	<u>11,065</u>	<u>15,507</u>	<u>17,758</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund Loans	-	-	-	(500)
Cigarette Tax Proceeds	-	-	-	2,402
Transfers In	-	-	-	2,600
Transfers Out	-	(18,237)	(18,237)	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(18,237)</u>	<u>(18,237)</u>	<u>4,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(1,537)	(1,537)	(4,181)
Proceeds from Sale of Fixed Assets	-	-	-	1,443
Principal Paid on Capital Leases	-	-	-	(3,247)
Interest Paid on Capital Leases	-	-	-	(210)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(1,537)</u>	<u>(1,537)</u>	<u>(6,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(228,800)	(228,800)	-
Proceeds from Sale of Investment Securities	-	229,947	229,947	-
Interest and Dividend Income	12,299	4,136	16,435	2,735
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>12,299</u>	<u>5,283</u>	<u>17,582</u>	<u>2,735</u>
NET INCREASE (DECREASE) IN CASH	16,741	(3,426)	13,315	18,800
CASH AND CASH EQUIVALENTS, JULY 1	<u>204,527</u>	<u>15,732</u>	<u>220,259</u>	<u>49,033</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 221,268</u>	<u>\$ 12,306</u>	<u>\$ 233,574</u>	<u>\$ 67,833</u>

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2002

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT COMPENSATION	NON-MAJOR ENTERPRISE FUNDS	TOTALS	
RECONCILIATION OF OPERATING INCOME TO NET CASH				
FLows FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 1,482	\$ 11,072	\$ 12,554	\$ (2,451)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	10	364	374	6,138
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(2,482)	(1,364)	(3,846)	133
(Increase) Decrease in Due from Other Funds	-	405	405	470
(Increase) Decrease in Inventories	-	1,004	1,004	13
(Increase) Decrease in Prepaid Expenses	-	(165)	(165)	22
(Increase) Decrease in Other Assets	-	363	363	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	125	(227)	(102)	289
Increase (Decrease) in Due to Other Funds	-	(2)	(2)	(203)
Increase (Decrease) in Claims Payable	5,307	(1,700)	3,607	13,326
Increase (Decrease) in Deferred Revenue	-	1,315	1,315	21
Total Adjustments	2,960	(7)	2,953	20,209
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 4,442	\$ 11,065	\$ 15,507	\$ 17,758
NONCASH TRANSACTIONS (dollars in thousands):				
Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.				
The following noncash transactions occurred during the year:				
Fixed Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 5,196
Change in Fair Value of Investments	-	123	123	-
Total Noncash Transactions	\$ -	\$ 123	\$ 123	\$ 5,196

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2002

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS:			
Cash and Cash Equivalents	\$ 2,159	\$ 13,870	\$ 81,373
Investments:			
U.S. Government Securities	820,077	-	-
Corporate Bonds	541,242	-	-
Equity Securities	1,255,901	-	-
Foreign Government Securities	23,818	-	-
Municipal Bonds	5,735	-	-
Pooled Investment Contracts	1,019,065	-	-
Mutual Funds	<u>1,603,508</u>	<u>201,258</u>	<u>-</u>
Total Investments	5,269,346	201,258	-
Securities Lending Collateral	531,859	-	-
Receivables:			
Contributions	12,181	-	-
Interest and Dividends	21,312	230	601
Other	<u>-</u>	<u>2</u>	<u>-</u>
Total Receivables	33,493	232	601
Due from Other Funds	16,112	1,269	-
Capital Assets:			
Buildings and Equipment	2,418	-	-
Less Accumulated Depreciation	<u>(735)</u>	<u>-</u>	<u>-</u>
Total Capital Assets	1,683	-	-
Other Assets	<u>-</u>	<u>2,986</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,854,652</u>	<u>\$ 219,615</u>	<u>\$ 81,974</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 4,855	\$ 9,993	\$ -
Due to Other Governments	-	-	42,964
Deposits	-	570	-
Due to Other Funds	60	10	-
Obligations under Securities Lending	531,859	-	-
Capital Lease Obligations	2,199	-	-
Accrued Compensated Absences	188	-	-
Other Liabilities	<u>-</u>	<u>40</u>	<u>39,010</u>
TOTAL LIABILITIES	<u>539,161</u>	<u>10,613</u>	<u>81,974</u>
NET ASSETS:			
Held in Trust for:			
Pension Benefits	5,315,491	-	-
Other Purposes	<u>-</u>	<u>209,002</u>	<u>-</u>
TOTAL NET ASSETS	<u>5,315,491</u>	<u>209,002</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,854,652</u>	<u>\$ 219,615</u>	<u>\$ 81,974</u>

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

State of Nebraska

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

For the Year Ended June 30, 2002

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 116,213	\$ 203,473
Client Contributions	-	129
State Contributions	47,537	-
Political Subdivision Contributions	88,351	-
Court Fees	493	-
Total Contributions	<u>252,594</u>	<u>203,602</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(431,302)	(8,078)
Interest and Dividend Income	132,187	713
Securities Lending Income	10,413	-
Total Investment Income	<u>(288,702)</u>	<u>(7,365)</u>
Investment Expenses	10,550	210
Securities Lending Expenses	8,095	-
Total Investment Expense	<u>18,645</u>	<u>210</u>
Net Investment Income	<u>(307,347)</u>	<u>(7,575)</u>
Escheat Revenue	-	5,369
Other Additions	177	5,261
TOTAL ADDITIONS	<u>(54,576)</u>	<u>206,657</u>
DEDUCTIONS:		
Benefits	203,138	1,290
Refunds	11,626	-
Amounts Distributed to Clients or Third Parties	-	6,078
Administrative Expenses	4,353	707
Transfers to Other Funds	-	5,276
TOTAL DEDUCTIONS	<u>219,117</u>	<u>13,351</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	(273,693)	-
Other Purposes	-	193,306
NET ASSETS-BEGINNING OF YEAR	<u>5,589,184</u>	<u>15,696</u>
NET ASSETS-END OF YEAR	<u>\$ 5,315,491</u>	<u>\$ 209,002</u>

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

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2002

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 209,654	\$ 15,153	\$ 224,807
Receivables, net of allowance			
Loans	34,716	2,543	37,259
Other	95,915	726	96,641
Due from Primary Government	1,811	3,776	5,587
Investments	264,271	7,237	271,508
Inventories	8,939	98	9,037
Prepaid Items	3,809	165	3,974
Investment in Joint Venture	119,645	-	119,645
Other Assets	23,598	153	23,751
Restricted Assets:			
Cash and Cash Equivalents	168,448	4,675	173,123
Investments held by trustee	-	1,614	1,614
Capital assets:			
Land	44,135	535	44,670
Infrastructure	71,451	10,812	82,263
Construction in Progress	118,960	9,473	128,433
Buildings and Equipment	1,075,268	94,540	1,169,808
Less Accumulated Depreciation	(429,279)	(45,493)	(474,772)
Total Capital Assets, Net of Depreciation	<u>880,535</u>	<u>69,867</u>	<u>950,402</u>
Total Assets	<u>\$ 1,811,341</u>	<u>\$ 106,007</u>	<u>\$ 1,917,348</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 75,010	\$ 6,955	\$ 81,965
Deposits	-	302	302
Deferred Revenue	66,151	385	66,536
Noncurrent Liabilities:			
Due within one year	34,680	2,431	37,111
Due in more than one year	282,957	26,283	309,240
Total Liabilities	<u>\$ 458,798</u>	<u>\$ 36,356</u>	<u>\$ 495,154</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 607,793	\$ 54,924	\$ 662,717
Restricted for:			
Education	61,002	-	61,002
Other Purposes	298,743	3,788	302,531
Construction and Debt Service	213,711	6,290	220,001
Unrestricted	<u>171,294</u>	<u>4,649</u>	<u>175,943</u>
Total Net Assets	<u>\$ 1,352,543</u>	<u>\$ 69,651</u>	<u>\$ 1,422,194</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2002

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Expenses	<u>\$ 1,148,835</u>	<u>\$ 67,011</u>	<u>\$ 1,215,846</u>
Program Revenues:			
Charges for Services	400,352	20,814	421,166
Operating Grants and Contributions	291,539	6,525	298,064
Capital Grants and Contributions	<u>33,322</u>	<u>-</u>	<u>33,322</u>
Total Program Revenues	<u>725,213</u>	<u>27,339</u>	<u>752,552</u>
Net (Expense) Revenue	<u>(423,622)</u>	<u>(39,672)</u>	<u>(463,294)</u>
General Revenue:			
Interest and investment earnings	17,471	1,034	18,505
Payments from the State of Nebraska	421,939	44,458	466,397
Miscellaneous	<u>5,854</u>	<u>3,442</u>	<u>9,296</u>
Total General Revenues	<u>445,264</u>	<u>48,934</u>	<u>494,198</u>
Change in Net Assets	21,642	9,262	30,904
Net Assets - Beginning - Restated	<u>1,330,901</u>	<u>60,389</u>	<u>1,391,290</u>
Net Assets - Ending	<u><u>\$ 1,352,543</u></u>	<u><u>\$ 69,651</u></u>	<u><u>\$ 1,422,194</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2002

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

A. Basis of Presentation. The accompanying basic financial statements of the State of Nebraska (the "State") and its component units have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services. Additional data has been derived from audited financial statements of certain entities and from reports prescribed by the State Accounting Administrator and prepared by various State agencies and departments based on independent or subsidiary accounting systems maintained by them.

B. Reporting Entity. In determining its financial reporting entity, the State has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State, or the significance of their relationship with the State are such that exclusion would be misleading or incomplete. The GASB 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 State 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 State.

As required by GAAP, these financial statements present the State of Nebraska and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. Complete financial statements of the individual component units that issue separate financial statements, as noted below, can be obtained from their respective administrative offices.

Blended Component Units. The following component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased

to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

Nebraska State Building Corporation. The Nebraska State Building Corporation (NSBC) is a nonprofit corporation formed by the State in 1987 to finance the acquisition of property to be used by the State. Even though it is legally separate, the NSBC is reported as if it were part of the State because it provides services entirely to the State.

Discretely Presented Component Units. The following component units are entities that are legally separate from the State, but are financially accountable to the State, or their relationships with the State are such that their exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State and governed by separate boards.

Nebraska State College System. The Board of Trustees of the Nebraska State Colleges governs Chadron State College, Peru State College and Wayne State College. The Board of Trustees is also the Board of Directors of the Nebraska State Colleges Facilities Corporation, a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State Colleges. The Board of Trustees consists of the Commissioner of Education and six members appointed by the Governor. Audit reports have been issued under separate cover.

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The Board of Regents is also the Board of Directors of the University of Nebraska Facilities Corporation, a nonprofit corporation organized by the Board of Regents in 1930 to finance buildings and hold them in trust for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State.

Audit reports have been issued under separate cover.

The university and colleges are funded chiefly through State appropriations, tuition, federal grants, private donations and grants, and auxiliary operations.

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Facilities Authority, Nebraska Investment Finance Authority, Research and Development Authority, and Wyuka Cemetery.

C. Government-Wide and Fund Financial Statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted Net Assets. This category results when constraints are externally imposed on net asset use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

It is the policy of the State to spend restricted net assets only when unrestricted net assets are insufficient or unavailable.

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are

imposed by management, but those constraints can be removed or modified.

The Statement of Net Assets reports total unrestricted net assets of \$365,881. These net assets chiefly consist of the unrestricted General Fund (approximately \$81,000) and the Health and Social Services Fund (approximately \$261,000). While this latter fund is reported as unrestricted, a significant portion of the fund has statutory provisions requiring the fund be spent on nursing facilities, medical assistance programs and tobacco prevention and control. Furthermore, the public has been led to believe such fund will be used for health related purposes, even though enabling legislation is lacking for the entire amount of such fund.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Administrative overhead charges of internal service funds are included in direct expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment; and 3) investment earnings of permanent funds that are legally restricted for a specific program. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 12 months. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment compensation taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 12 months are offset by deferred revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

General Fund. This is the State's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Highway Fund. This fund accounts for the maintenance and preservation of State highways financed with sales tax on motor vehicles, gas taxes, federal aid and other highway user fees.

Federal Fund. This fund accounts for substantially all federal monies received by the State, except those received by the Highway Fund.

Health and Social Services Fund. This fund accounts for activities of agencies, boards, and commissions providing health care and social services financed primarily by user fees and tobacco settlement proceeds.

Permanent School Fund. This fund receives proceeds from any sale of the school lands held in trust for public education, payments for easements and rights-of-way over these lands, royalties and severance taxes paid on oil, gas and minerals produced from this lands, escheats, unclaimed property and other items provided by law. Income is distributed to public schools.

The State reports the following major enterprise fund:

Unemployment Compensation Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons.

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

Capital Projects Fund. Reflects transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities.

Permanent Funds. Reflects transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens, such as veterans, state airports and others.

Proprietary Fund Types:

Enterprise Funds. Reflect transactions used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing, and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private Purpose Trust Funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals and assets held for clients and inmates.

Agency Funds. These funds account for assets held by the State pending distribution to other governments and individuals.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989,

unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents. In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2002, approximated market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains a short-term investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Investments. Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

G. Receivables. Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.

H. Inventories. Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted

average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Food stamps and commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Food stamp inventory is reported at face value and commodities are reported at fair values established by the federal government at the date received.

I. Restricted Assets. Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.

J. Capital Assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

Generally, equipment that has a cost in excess of \$5 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100 are capitalized. Building improvements and renovations in excess of \$100 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings and equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

The State has elected to use the “modified approach” to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: commit to maintaining and preserving affected assets at or above a condition level established by the State; maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Roads are accounted for using the modified approach.

K. Compensated Employee Absences. All permanent employees earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time, the State is liable for 25 percent of the employee’s accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime

The government-wide, proprietary, and fiduciary fund financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this

type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

M. Interfund Transactions. Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The effect of interfund activity has been eliminated from the government-wide financial statements.

N. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2002, basic financial statements. All securities purchased or held must either be in the custody of the State or deposited with an agent in the State’s name.

Deposits. At June 30, 2002, the carrying amounts of the Primary Government’s deposits were \$152,180 and the bank balances were \$222,632. \$220,164 of the bank balance was covered by federal depository insurance or by collateral held by the State’s agent in the State’s name; \$2,468 was not collateralized.

State Statutes require that the aggregate amount of collateral securities deposited by a bank with the State Treasurer shall be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. During the year the amount of public funds deposited with a bank occasionally exceeded the amount of collateral required by statute. The State Treasurer had compensating balance agreements with various banks totaling \$66,887 at June 30, 2002.

Investments. State Statute Section 72-1246 authorizes the State Investment Officer to invest the State’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. Certain State entities are also allowed by statute to invest in real estate and other investments.

The State’s investments are categorized to give an indication of the level of custodial risk assumed by the State

at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for

which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

The Pension Funds own approximately 66 percent of the investments that are in Category 1.

INVESTMENTS – PRIMARY GOVERNMENT AT JUNE 30, 2002

	CATEGORY			TOTAL FAIR VALUE
	1	2	3	
U.S. Government Securities	\$ 1,147,856	\$ 11,029	\$ -	\$ 1,158,885
Corporate Bonds	842,432	-	-	842,432
Equity Securities				
Not on Securities Loan	1,141,721	-	-	1,141,721
On Securities Loan	361			361
Collateral Mortgage Obligations	174,132	-	-	174,132
Commercial Paper	33,626	-	-	33,626
Foreign Government Securities	26,535	-	-	26,535
Municipal Bonds	6,238	-	-	6,238
	<u>\$ 3,372,901</u>	<u>\$ 11,029</u>	<u>\$ -</u>	3,383,930
UNCATEGORIZED:				
Pooled Investment Contracts				1,014,166
Investment in U.S. Treasury				
Investment Pool				177,588
Investments held by Broker-Dealers				
Under Securities Loans				
U.S. Government Securities				579,683
Corporate Bonds				53,037
Equity Securities				174,291
Securities Lending Short-term Collateral				
Investment Pool				824,686
Mutual Funds				2,063,505
Less: Component Unit Investment				
in State Investment Pool				(280,532)
Total Investments				<u>\$ 7,990,354</u>

A reconciliation of deposits and investments for the Primary Government to the basic financial statements at June 30, 2002, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 7,990,354
Carrying amount of Deposits	<u>152,180</u>
Total	<u>\$ 8,142,534</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 625,680
Investments	1,076,768
Restricted Cash and Cash Equivalents	47,394
Securities Lending Collateral	292,827

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	97,402
Investments	5,470,604
Securities Lending Collateral	<u>531,859</u>
Total	<u>\$ 8,142,534</u>

Securities Lending Transactions. The State participates 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 State's 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 preceding schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State 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.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 53 and 63 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 State by the contract with the custodian.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates or financial indices. The State invests in collateral mortgage obligations and futures contracts. Collateral mortgage obligations are traded on exchanges and carried at fair value. Futures represent commitments to purchase or sell securities or money market

instruments at a future date and at a specific price. The State invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2002, the State held \$193,438 of futures contracts.

Component Units

Deposits. At June 30, 2002, the carrying amounts of the Component Units' deposits were \$2,022 and the bank balances were \$2,775. Of the bank balances, \$2,156 was covered by federal depository insurance or by collateral held by the component units' agent in the component units' name, \$364 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the component units' name and \$255 was not collateralized.

Investments. Component unit investments are all classified as category 3 investments, except for mutual funds, which are not categorized. Investments for the component units at June 30, 2002, consist of the following:

U.S. Government Securities	\$ 100,180
Corporate Bonds	89,157
Mutual Funds	<u>83,785</u>
Total Investments	<u>\$ 273,122</u>

The investments for the component units are presented on the Statement of Net Assets at June 30, 2002, as follows:

Statement of Net Assets:

Investments	\$ 271,508
Restricted Other Assets	<u>1,614</u>
Total	<u>\$ 273,122</u>

3. Receivables

Receivables are reflected net of allowances for doubtful accounts of the following amounts at June 30, 2002:

Governmental Activities:

General Fund	\$ 6,791
Federal Fund	<u>10,312</u>
Total Governmental Activities	<u>\$ 17,103</u>

Business-type Activities:

Unemployment Compensation	<u>\$ 4,117</u>
Total Business-type Activities	<u>\$ 4,117</u>

Taxes receivable of \$7,757 are not expected to be collected within the next year. This amount has been offset by deferred revenue in the General Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	BEGINNING BALANCE (Restated)	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 421,157	\$ 18,311	\$ 1,178	\$ 438,290
Infrastructure	5,909,918	70,999	-	5,980,917
Construction in progress	119,997	21,017	111,158	29,856
Total capital assets, not being depreciated	<u>6,451,072</u>	<u>110,327</u>	<u>112,336</u>	<u>6,449,063</u>
Capital assets, being depreciated:				
Buildings and improvements	304,875	117,205	1,570	420,510
Equipment	268,746	35,349	18,081	286,014
Total capital assets, being depreciated	<u>573,621</u>	<u>152,554</u>	<u>19,651</u>	<u>706,524</u>
Less accumulated depreciation for:				
Buildings and improvements	163,452	9,149	899	171,702
Equipment	177,107	30,550	15,008	192,649
Total accumulated depreciation	<u>340,559</u>	<u>39,699</u>	<u>15,907</u>	<u>364,351</u>
Total capital assets, being depreciated, net	<u>233,062</u>	<u>112,855</u>	<u>3,744</u>	<u>342,173</u>
Governmental activities capital assets, net	<u>\$ 6,684,134</u>	<u>\$ 223,182</u>	<u>\$ 116,080</u>	<u>\$ 6,791,236</u>
Business-type activities:				
Unemployment Compensation				
Equipment, being depreciated	\$ 177	\$ -	\$ -	\$ 177
Less accumulated depreciation	141	10	-	151
Total Unemployment Compensation, net	<u>36</u>	<u>(10)</u>	<u>-</u>	<u>26</u>
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>
Capital assets, being depreciated:				
Buildings and improvements	5,599	191	95	5,695
Equipment	2,731	1,345	147	3,929
Total capital assets, being depreciated	<u>8,330</u>	<u>1,536</u>	<u>242</u>	<u>9,624</u>
Less accumulated depreciation for:				
Buildings and improvements	982	147	95	1,034
Equipment	1,867	217	147	1,937
Total accumulated depreciation	<u>2,849</u>	<u>364</u>	<u>242</u>	<u>2,971</u>
Total capital assets, being depreciated, net	<u>5,481</u>	<u>1,172</u>	<u>-</u>	<u>6,653</u>
Business-type activities capital assets, net	<u>\$ 5,832</u>	<u>\$ 1,162</u>	<u>\$ -</u>	<u>\$ 6,994</u>

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General Government	\$ 7,827
Conservation of Natural Resources	156
Culture – Recreation	2,548
Economic Development and Assistance	460
Education	1,858
Health and Social Services	1,503
Public Safety	7,897
Regulation of Business and Professions	366
Transportation	17,084
Total depreciation expense -	
Governmental activities	<u>\$ 39,699</u>

Construction Commitments. At June 30, 2002, the State had contractual commitments of approximately \$537,033 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 161,290
State funds	358,153
Local funds	17,590
	<u>\$ 537,033</u>

Most of these commitments will not be reflected as capital asset increases when they are paid because the State is using the modified approach to account for infrastructure. Under this method, capital asset additions are only reflected when improvements expand the capacity or efficiency of an asset.

5. Interfund Balances

Due To/From Other Funds at June 30, 2002, consists of the following:

	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
DUE FROM									
General Fund	\$ -	\$ 88	\$ 6	\$ 69	\$ 1,850	\$ 68	\$ 31,421	\$ 15,843	\$ 49,345
Highway Fund	43	-	-	-	687	121	317	-	1,168
Federal Fund	113,525	1	-	12,460	1,784	30	3,375	-	131,175
Health and Social Services	-	-	-	-	7	-	168	-	175
Permanent School Fund	-	-	-	-	-	-	2	1,269	1,271
Nonmajor Governmental Funds	13,325	10	41	4	27	211	2,206	269	16,093
Nonmajor Enterprise Funds	-	3	-	9	903	-	37	-	952
Internal Service Funds	61	343	-	-	24	1	357	-	786
Fiduciary Funds	-	-	-	-	-	-	70	-	70
TOTALS	\$ 126,954	\$ 445	\$ 47	\$ 12,542	\$ 5,282	\$ 431	\$ 37,953	\$ 17,381	\$ 201,035

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for \$27,778 due from the General Fund to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2002, consist of the following:

	TRANSFERRED TO:						TOTALS
	General Fund	Highway Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Internal Service Funds	
TRANSFERRED FROM:							
General Fund	\$ -	\$ -	\$ 250	\$ -	\$ 44,717	\$ 1,500	\$ 46,467
Highway Fund	-	-	-	-	4,701	-	4,701
Federal Fund	-	-	-	-	19,254	-	19,254
Nonmajor Governmental Funds	44,319	3,602	183	31	10,368	1,100	59,603
Nonmajor Enterprise Funds	-	-	680	-	17,806	-	18,486
Fiduciary Funds	-	-	-	4,990	286	-	5,276
TOTALS	\$ 44,319	\$ 3,602	\$ 1,113	\$ 5,021	\$ 97,132	\$ 2,600	\$ 153,787

Transfers are used to (1) move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) move profits from the State Lottery Fund as required by law.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the basic financial statements at June 30, 2002, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Compensation	Nonmajor Enterprise Funds	TOTALS
Payroll and withholdings	\$ 24,736	\$ 4,109	\$ 2,063	\$ 454	\$ 1	\$ 1,271	\$ 962	\$ 2	\$ 158	\$ 33,756
Accounts payable	35,967	49,730	51,607	4,496	153	20,482	9,206	2,542	4,088	178,271
Medicaid claims	82,388	-	101,250	-	-	-	-	-	-	183,638
Due to Fiduciary Funds *	-	-	-	-	-	-	17,381	-	-	17,381
Miscellaneous	675	179	2	4,075	-	17	2,968	258	74	8,248
TOTALS	\$ 143,766	\$ 54,018	\$ 154,922	\$ 9,025	\$ 154	\$ 21,770	\$ 30,517	\$ 2,802	\$ 4,320	\$ 421,294

* This amount represents amounts due to fiduciary funds, which were classified as external payables on the government-wide Statement of Net Assets.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2002, are summarized as follows:

	BEGINNING BALANCE (Restated)	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 42,406	\$ 82,697	\$ 70,276	\$ 54,827	\$ 19,069
Bonds Payable	25,670	14,005	6,465	33,210	2,250
Capital Lease Obligations	12,838	26,730	7,683	31,885	3,355
Obligations Under Other Financing Arrangements	7,345	2,180	2,340	7,185	330
Compensated Absences	92,140	17,614	11,783	97,971	14,137
Totals	<u>\$ 180,399</u>	<u>\$ 143,226</u>	<u>\$ 98,547</u>	<u>\$ 225,078</u>	<u>\$ 39,141</u>
Business-type Activities:					
Unemployment Compensation:					
Claims Payable	\$ 11,842	\$ 137,074	\$ 132,132	\$ 16,784	\$ 16,784
Compensated Absences	52	11	8	55	8
Totals for Unemployment Compensation	<u>11,894</u>	<u>137,085</u>	<u>132,140</u>	<u>16,839</u>	<u>16,792</u>
Nonmajor Enterprise Funds:					
Claims Payable	46,200	8,668	10,368	44,500	12,440
Compensated Absences	370	107	53	424	61
Totals for Nonmajor Enterprise Funds	<u>46,570</u>	<u>8,775</u>	<u>10,421</u>	<u>44,924</u>	<u>12,501</u>
Totals for Business-type Activities	<u>\$ 58,464</u>	<u>\$ 145,860</u>	<u>\$ 142,561</u>	<u>\$ 61,763</u>	<u>\$ 29,293</u>

Compensated absences and capital lease obligations typically have been liquidated in the general, special revenue and internal service funds. Claims payable have been liquidated in the general and internal service funds. Bonds payable and obligations under other financing arrangements have been liquidated in the special revenue funds.

Constitution that permits the issuance of revenue bonds for: (1) construction of highways; and (2) construction of water conservation and management structures. At June 30, 2002, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May

8. Bonds Payable

Article XIII of the State's Constitution prohibits the State from incurring debt in excess of one hundred thousand dollars. However, there is a provision in the

2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2002 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations

outstanding at June 30, 2002 are collateralized by the revenues of the NSBC, which consist primarily of building rental paid by the State.

The component units issue bonds for various purposes including student housing, parking facilities and special event centers. Net revenues from student housing and dining facilities, special student fees and parking facilities fees are pledged to secure the appropriate issues.

All outstanding bond issues of the University of Nebraska Facilities Corporation and the Nebraska State College Facilities Corporation are general obligations of these corporations. They are separate legal entities that are not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2002 are collateralized by a special allocation of a portion of the State cigarette tax.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2002
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000, 2002	2001-2010	2.70%-6.00%	\$ 29,055
Nebraska State Building Corporation Issue	1992, 2002	1992-2009	1.50%-6.50%	<u>4,155</u>
Primary Government Total				<u>\$ 33,210</u>
COMPONENT UNITS				
University of Nebraska	1966-2002	1966-2021	3.50%-5.90%	\$ 236,565
Nebraska State Colleges	1994-2002	1994-2014	2.00%-5.70%	<u>27,085</u>
Component Units Total				<u>\$ 263,650</u>

**PRIMARY GOVERNMENT
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2003	\$ 2,250	\$ 1,549	\$ 3,799
2004	3,695	1,507	5,202
2005	3,835	1,366	5,201
2006	3,995	1,209	5,204
2007	4,195	1,014	5,209
2008 - 2012	<u>15,240</u>	<u>1,683</u>	<u>16,923</u>
Total	<u>\$ 33,210</u>	<u>\$ 8,328</u>	<u>\$ 41,538</u>

**COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2003	\$ 13,645	\$ 12,721	\$ 26,366
2004	16,255	12,095	28,350
2005	18,370	11,389	29,759
2006	26,245	10,554	36,799
2007	21,395	9,358	30,753
2008 - 2012	100,760	31,792	132,552
2013 - 2017	46,600	12,565	59,165
2018 - 2022	<u>20,380</u>	<u>3,566</u>	<u>23,946</u>
Total	<u>\$ 263,650</u>	<u>\$ 104,040</u>	<u>\$ 367,690</u>

Changes in bonds payable for component units for fiscal year 2002 are summarized below:

Balance at July 1, 2001	\$ 185,375
New Bonds Issued:	
University of Nebraska	78,575
Nebraska State Colleges	11,375
Bonds Retired	<u>(11,675)</u>
Balance at June 30, 2002	<u>\$ 263,650</u>

Bond Defeasances – Primary Government

On June 7, 2002, NSBC issued \$4,155 of Series 2002 Lease Rental Revenue Bonds to advance refund \$4,385 of outstanding Series 1992 Lease Rental Revenue Refunding Bonds. The net proceeds of \$4,105, plus an additional \$298 of 1992 bond fund monies were used to advance refund the 1992 bonds. Outstanding bonds on July 8, 2002 were redeemed at a price equal to the principal amount plus accrued interest. The refunding resulted in a decrease in net debt service payments over the life of the bonds of \$617. This is equivalent to an economic gain of \$306. At June 30, 2002, \$4,385 of the Series 1992 Bonds are outstanding.

Bond Defeasances – Component Units

On July 15, 1993, the University of Nebraska Facilities Corporation issued \$45,570 of Refunding Bonds. On September 30, 1997, the University of Nebraska Facilities Corporation deposited \$34,764 into an irrevocable trust with an escrow agent to defease outstanding 1993 Series Bonds. Outstanding bonds on July 1, 2005 will be redeemed at a price equal to the principal amount plus accrued interest. As a result, the 1993 bonds are considered to be defeased and the liability for these bonds has been removed from bonds payable. At June 30, 2002, \$28,815 of 1993 bonds are outstanding.

9. Lease Commitments

Capital and Operating Leases. The State leases land, office facilities, equipment, and other assets under both capital and operating leases. Although the lease terms may vary, all leases are subject to annual appropriation by the Legislature.

The minimum annual lease payments and the present value of future minimum payments for capital leases as of June 30, 2002 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS
2003	\$ 4,458	\$ 396
2004	3,953	392
2005	5,437	395
2006	5,237	398
2007	5,154	398
2008-2012	10,972	504
2013-2017	2,655	-
2018-2022	<u>289</u>	<u>-</u>
Total Minimum Payments	38,155	2,483
Less: interest and executory costs	<u>6,270</u>	<u>284</u>
Present value of net minimum payments	<u>\$ 31,885</u>	<u>\$ 2,199</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2002:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS
Buildings	\$ 7,070	\$ -
Equipment	32,625	2,412
Less: accumulated depreciation	<u>(8,669)</u>	<u>(732)</u>
Carrying value	<u>\$ 31,026</u>	<u>\$ 1,680</u>

The minimum annual lease payments for operating leases as of June 30, 2002 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2003	\$ 3,835
2004	2,952
2005	2,952
2006	2,952
2007	2,952
2008-2012	9,070
2013-2017	534
2018-2022	<u>320</u>
Total	<u>\$ 25,567</u>

Primary Government operating lease payments for the year ended June 30, 2002 totaled \$12,009.

Lessor Transactions. The State also is a lessor of property, primarily farm land leased by the Board of Educational Lands and Funds to farmers and ranchers. At June 30, 2002, the State owned approximately 1.5 million acres of land that was under lease. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$22,702 were received under these and other lease agreements for the year ended June 30, 2002.

10. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority (NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 3.90 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2003	\$ 330	\$ 371	\$ 701
2004	345	355	700
2005	365	338	703
2006	375	321	696
2007	395	302	697
2008-2012	2,315	1,178	3,493
2013-2017	<u>3,060</u>	<u>427</u>	<u>3,487</u>
Total	<u>\$ 7,185</u>	<u>\$ 3,292</u>	<u>\$ 10,477</u>

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

The Public Employees Retirement Board (the Board), which consists of seven members, was created in 1971 to administer the Nebraska retirement plans then in existence. Those plans were the School, State Employees', Judges' and State Patrol plans. In October of 1973, the Board assumed the administration of the Nebraska Counties Retirement System. The plans have been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Contribution and benefit provisions are established by State law and may only be amended by the State Legislature.

The Board prepares separate reports for the defined contribution plans and for the defined benefit plans. Copies of these reports that include financial statements and required supplementary information for the plans may be obtained by writing to Public Employees Retirement Systems, P.O. Box 94816, Lincoln, NE 68509-4816, or by calling 402-471-2053.

Basis of Accounting. The financial statements of the plans are prepared using the accrual basis of accounting, and are included as pension trust funds in the accompanying basic financial statements. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Plan Description and Funding Policy. By State law, there is to be an equitable allocation of expenses among the retirement systems administered by the Board, and all expenses shall be provided from the investment income earned by the various retirement funds. Following is a summary of each of these plans:

State Employees' Retirement. This plan became effective January 1, 1964, and is a single-employer defined contribution plan established to provide benefits at retirement to general employees of the State. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2001.

Participation in the plan is required for all permanent full-time employees upon reaching the age of 30 and completion of 24 months of continuous service. Each member contributes 4.33 percent of their compensation until \$864 has been paid and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2001, there were 12,750 active members and 2,070 inactive members. Members contributed \$19,754 and the State contributed

\$30,066 during the year ended December 31, 2001, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2001.

The plan is a multiple-employer defined contribution plan that covers employees of 91 of the 93 counties. Participation in the plan is required of all employees working 20 or more hours per week upon the completion of 12 months of continuous service and of all elected officials. County employees and elected officials contribute four percent and commissioned law enforcement personnel (for participating counties with an excess of 85,000 inhabitants) contribute six percent of their total compensation. The counties contribute six percent and eight percent, respectively. The State is not required to contribute to this plan.

As of December 31, 2001, there were 5,983 active members and 1,083 inactive members. Members contributed \$5,716 and counties contributed \$8,128 during the year ended December 31, 2001, which were equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 603 participating school districts. All regular public school employees in Nebraska, other than those who have their own retirement plan, are members of the system. The benefits are based on both service and contributions.

The State's contribution is based on an annual actuarial valuation. The employees' contribution is 7.25 percent of their total pay and the school district's contribution is 101 percent of the employees' contribution.

Judges' Retirement. The Judges' Retirement System is a single-employer defined benefit pension system. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Court, Workers' Compensation Court, County Court, and Juvenile Court. Benefits are based on both service and final average salary. Benefits vest when the judge takes office.

Members' contributions, a portion of court fees collected, and the State's contribution, which is based on an annual actuarial valuation, fund the plan. The judges contribute six percent of their salary.

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit pension system for officers of the patrol. The

benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the average salary. Participation is mandated upon employment.

Members are required to contribute eleven percent of their annual pay, which is matched by the State Patrol. The State's contribution is based on an annual actuarial valuation.

The actuarial cost method for the Judges' and the State Patrol Retirement Systems changed from frozen entry age to entry age as of June 30, 2002. The schedule on the right presents the primary actuarial assumptions used in the most recent actuarial reports for the single-employer defined benefit plans:

	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	6/30/2002	6/30/2002
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Amount Closed	Level Amount Closed
Amortization Period	25 Years	25 Years
Mortality	1994 Group Annuity Table	1994 Group Annuity Table
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return **	8.0%	8.0%
Projected Salary Increases **	5.0%	Graded 12.0% to 4.5%

** Includes assumed inflation of 3.5% per year.

The following table provides the schedules of funding progress for the single-employer defined benefit plans:

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS						
Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(a-b) Excess of Assets over AAL	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Excess as a Percentage of Covered Payroll
Judges'						
6/30/02	\$ 92,596	\$ 81,192	\$ 11,404	114.0 %	\$ 16,062	71.0 %
6/30/01	90,686	90,686	-	100.0	15,188	-
6/30/00	84,483	84,483	-	100.0	13,913	-
State Patrol						
6/30/02	\$ 214,528	\$ 197,615	\$ 16,913	108.6 %	\$ 18,847	89.7 %
6/30/01	208,373	187,284	21,089	111.3	16,727	126.1
6/30/00	193,020	169,546	23,474	113.8	15,789	148.7

UNAUDITED THREE-YEAR TREND INFORMATION			
YEAR ENDED JUNE 30	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
School			
2002	\$ 14,971	100%	\$ -
2001	14,452	100	-
2000	14,102	100	-
Judges'			
2002	\$ -	- %	\$ -
2001	-	-	-
2000	-	-	-
State Patrol			
2002	\$ 2,428	100%	\$ -
2001	2,258	100	-
2000	2,204	100	-

Other Plans

Component Units. The Teachers Insurance and Annuity Association/College Retirement Equity Fund, a

privately administered defined contribution retirement plan, provides individual retirement fund contracts for eligible employees of the University and State Colleges. Under the plan, eligible employees contribute 3.5 percent to 6.0 percent of monthly earnings and the institutions match the employees' contributions plus an additional 1.5 percent to 2.5 percent of earnings. Participation in the plan is required upon reaching the age of 30 with two years of continuous service. Voluntary participation is permitted upon reaching the age of 25 and two years of continuous service. The plan benefits are fully vested at the date of contribution. The State assumes no liability for the plan other than payment of contributions.

The total payroll for the University and State Colleges for fiscal year 2002 was \$626,124 of which \$466,911 was covered by the plan. The institutions' contributions were \$27,401 or 5.87 percent of covered payroll and the employees' contributions were \$19,814 or 4.24 percent of covered payroll.

12. Contingencies and Commitments

Grants and Contracts. The State participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State.

All State agencies including institutions of higher education are required to comply with various federal regulations issued by the U.S. Office of Management and Budget if such agency or institution is a recipient of federal grants, contracts, or other sponsored agreements. Certain agencies or institutions may not be in total compliance with these regulations. Failure to comply may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the State.

Litigation. The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the State for these proceedings. It is the State's opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State's financial position.

The State also has been named as a party in legal proceedings that occur outside of the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State for these proceedings. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

Entergy Arkansas, Inc. and other interested parties filed suit against the State of Nebraska alleging that the State improperly, and in bad faith, denied the application of US Ecology to construct and operate a low-level waste disposal facility in the State. On September 30, 2002, the U.S. District Court for Nebraska awarded a \$151,000 judgment against the State. The State plans to continue to vigorously contest the case by appealing this judgment to the Eighth Circuit Court of Appeals, and, if necessary, to the U.S. Supreme Court. On October 30, 2002, the State filed a Notice of Appeal with the Eighth Circuit Court, which, management and outside counsel believe, contains sufficient technical evidence for the Court to reverse the decision of the district court. However, the outcome of the appeal is uncertain and difficult to predict. The prospects for settlement are also

uncertain, but unlikely, pending completion of the appeal. While the State will vigorously contest this award, should the State lose all its appeals, the impact of such judgment on the financial statements could be significant.

On June 1, 2000, a District Court opined that the statutory \$1,250 limit on the total amount of damages recoverable in any medical malpractice action was unconstitutional. This case has been appealed to the Nebraska Supreme Court. That court previously determined the Medical Malpractice Act constitutional. Should the court reverse its previous position, it is not possible, at the present time, should the limit be eliminated, to estimate the increase in liability to the Excess Liability Enterprise Fund.

During the first part of fiscal year 2003, the Excess Liability Enterprise fund received notice that 44 separate cases had been filed alleging improper sterilization techniques at a Fremont oncology clinic that resulted in the contraction of Hepatitis C. Approximately 80 patients at the clinic have tested positive for Hepatitis C. At the present time, it is not possible to estimate any increase in liability to the Excess Liability Enterprise fund.

13. Risk Management

Through the Department of Administrative Services, Divisions of Risk Management and State Personnel, the State maintains insurance and self-insurance programs. Workers' compensation, health care, employee liability and general liability are generally self-insured. However, the State does carry surety bonds for constitutional officers and limited general liability on two buildings. Motor vehicle liability is insured with a \$5,000 limit and a \$300 retention per occurrence (the self-insured retention for vehicular pursuit is \$1,000) and employee dishonesty is insured with a \$1,000 limit with a \$25 retention per incident. The State insures against property damage, maintaining a policy with a \$100,000 limit and a \$200 retention per occurrence. The State also provides insurance for personal property damage. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. The Division of State Personnel provides life insurance for eligible State employees. These activities are reported in the Risk Management Internal Service Fund.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are

evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liability for workers' compensation is recorded at a discounted rate of five percent (\$14,630), which resulted in a liability of \$42,065.

Changes in the balances of claims liabilities during the years ended June 30, 2002, and 2001, were as follows:

	Fiscal Year	
	2002	2001
Beginning Balance	\$ 39,031	\$ 34,411
Current Year Claims and Changes in Estimates	68,116	18,111
Claim Payments	(54,790)	(13,491)
Ending Balance	<u>\$ 52,357</u>	<u>\$ 39,031</u>

14. Joint Venture

On October 1, 1997, the Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement forming the Nebraska Health System (NHS), a Nebraska nonprofit corporation. A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NHS. Upon dissolution of NHS, the University and Clarkson will share equally in the remaining assets. Because the University has an ongoing financial interest in NHS, the University is accounting for the joint venture under the equity method. The University has recorded fifty percent equity in the change in net assets of NHS for the year ended June 30, 2002 totaling approximately \$(1,099). In addition, to the extent that sufficient funds are available as determined by the NHS Board of Directors, the University will receive an annual capital distribution. A distribution was declared in fiscal year 2001, of which the University received \$3,000 in August 2001. There were no distributions declared in fiscal year 2002.

In connection with the Joint Operating Agreement, the Board of Regents also entered into an Academic Affiliation Agreement for Education and Research with NHS. In connection with this agreement, NHS has agreed to financially support certain educational, research, operational and clinical activities of the University that further the mission and objectives of NHS. During the year ended June 30, 2002, the University received approximately \$15,815 of support in connection with the agreement.

Separate financial statements of NHS can be obtained from the Nebraska Health System, 42nd Street and Dewey Avenue, Omaha NE 68105.

15. Accounting Changes

GASB Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Disclosures* were implemented during fiscal year 2002.

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The State Colleges and University of Nebraska, reported as discretely presented component units, adopted the requirements of Statement No. 35.

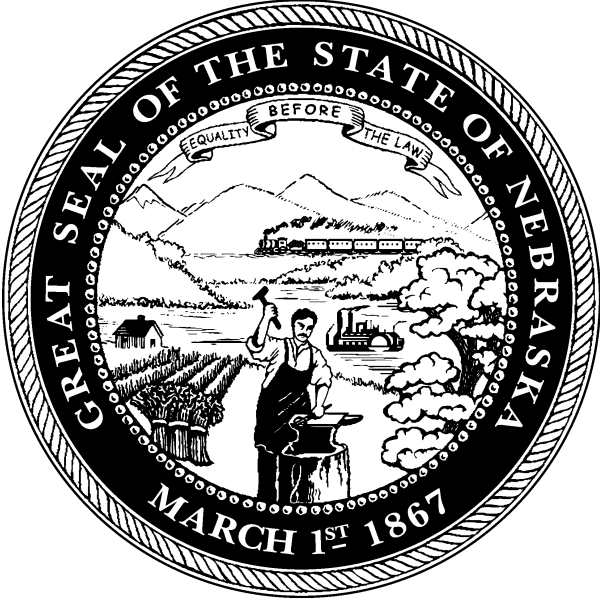
Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

The provisions of these new statements have been incorporated into the financial statements and notes. The table on the following page summarizes changes to fund equities as previously reported on the Combined Balance Sheet. The changes resulted primarily from implementation of these GASB Statements; however, the prior amount due to components from the General Fund decreased \$15,384 due to a restatement by the University.

RESTATEMENT OF BEGINNING FUND EQUITIES/NET ASSETS

	June 30, 2001 As Previously Reported	Fund Reclassifications	Prior Period Adjustments	June 30, 2001 As Restated
GOVERNMENTAL FUNDS AND ACTIVITIES				
Major Funds:				
General Fund	\$ 199,848	\$ 88,890	\$ 15,384	\$ 304,122
Highway Fund	-	152,834	-	152,834
Federal Fund	-	35,740	-	35,740
Health and Social Services	-	269,541	-	269,541
Permanent School Fund	-	303,881	(4,054)	299,827
Nonmajor Funds:				
Special Revenue Funds	1,033,318	(546,981)	-	486,337
Capital Projects Fund	17,581	-	-	17,581
Permanent Funds	-	39,917	-	39,917
Total Nonmajor Funds	<u>1,050,899</u>	<u>(507,064)</u>	<u>-</u>	<u>543,835</u>
Total Governmental Funds	<u>1,250,747</u>	<u>343,822</u>	<u>11,330</u>	<u>1,605,899</u>
Adoption of GASB Statement No. 34				
Capital Assets, net of depreciation	-	681,489	5,982,473	6,663,962
Long-term Liabilities	-	-	(131,374)	(131,374)
Other Liabilities	-	-	(542)	(542)
Revenue Recognition	-	-	6,974	6,974
Internal Service Funds	-	52,037	-	52,037
Adoption of GASB Statement No. 34	-	733,526	5,857,531	6,591,057
TOTAL GOVERNMENTAL FUNDS AND ACTIVITIES	<u>\$ 1,250,747</u>	<u>\$ 1,077,348</u>	<u>\$ 5,868,861</u>	<u>\$ 8,196,956</u>
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES				
Major Funds:				
Unemployment Compensation	\$ -	\$ 209,025	\$ (19)	\$ 209,006
Nonmajor Funds:				
Enterprise	16,190	11,714	-	27,904
Internal Service Funds	63,751	(63,751)	-	-
TOTAL PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES	<u>\$ 79,941</u>	<u>\$ 156,988</u>	<u>\$ (19)</u>	<u>\$ 236,910</u>
FIDUCIARY FUNDS				
Pension Trust Funds	\$ -	\$ 5,589,184	\$ -	\$ 5,589,184
Private Purpose Trust Funds	-	8,333	7,363	15,696
Trust and Agency Funds	6,153,364	(6,153,364)	-	-
TOTAL FIDUCIARY FUNDS	<u>\$ 6,153,364</u>	<u>\$ (555,847)</u>	<u>\$ 7,363</u>	<u>\$ 5,604,880</u>
General Fixed Assets Account Group	<u>\$ 678,489</u>	<u>(678,489)</u>	<u>-</u>	<u>\$ -</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,162,541</u>	<u>\$ -</u>	<u>\$ 5,876,205</u>	<u>\$ 14,038,746</u>
DISCRETELY PRESENTED COMPONENT UNITS	\$ 1,895,370	-	-	\$ 1,895,370
Adoption of GASB Statements No. 34 and 35				
Capital Assets, net of depreciation	-	-	(472,374)	(472,374)
Deferred Revenues	-	-	(31,706)	(31,706)
TOTAL DISCRETELY PRESENTED COMPONENT UNITS	<u>\$ 1,895,370</u>	<u>\$ -</u>	<u>\$ (504,080)</u>	<u>\$ 1,391,290</u>

REQUIRED SUPPLEMENTARY INFORMATION



State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2002

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ 2,544,882	\$ 2,404,034	\$ 2,278,543	\$ (125,491)
Federal Grants and Contracts	747	747	747	-
Sales and Charges	21,236	21,236	21,236	-
Other	25,351	25,351	25,351	-
TOTAL REVENUES	<u>2,592,216</u>	<u>2,451,368</u>	<u>2,325,877</u>	<u>(125,491)</u>
EXPENDITURES:				
Current:				
General Government	108,222	104,009	92,610	11,399
Conservation of Natural Resources	50,038	48,185	36,140	12,045
Culture – Recreation	6,202	5,992	5,622	370
Economic Development and Assistance	11,687	10,601	7,905	2,696
Education	1,378,649	1,358,124	1,339,342	18,782
Health and Social Services	853,482	821,656	811,054	10,602
Public Safety	179,943	170,242	157,704	12,538
Regulation of Business and Professions	3,722	3,188	2,883	305
Transportation	1,084	1,075	781	294
Intergovernmental	108,342	108,725	105,358	3,367
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	<u>2,701,371</u>	<u>2,631,797</u>	<u>2,559,399</u>	<u>72,398</u>
Excess of Revenues Over (Under) Expenditures	<u>(109,155)</u>	<u>(180,429)</u>	<u>(233,522)</u>	<u>(53,093)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	105,644	105,644	105,644	-
Transfers Out	(52,978)	(52,978)	(52,978)	-
Other	862	862	862	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>53,528</u>	<u>53,528</u>	<u>53,528</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(55,627)</u>	<u>(126,901)</u>	<u>(179,994)</u>	<u>(53,093)</u>
FUND BALANCES, JULY 1	<u>234,036</u>	<u>234,036</u>	<u>234,036</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 178,409</u>	<u>\$ 107,135</u>	<u>\$ 54,042</u>	<u>\$ (53,093)</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2002, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2002	
General	\$ 54,042
Cash Reserve	110,066
Budgetary fund balances	<u>164,108</u>
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record amount due component units	(5,587)
Record taxes receivable	209,705
Record tax refund liability	(245,583)
Record State contributions due pension funds	(15,389)
Record medicaid claims payable	(82,388)
Record other net accrued receivables and liabilities	55,833
GAAP fund balance, June 30, 2002	<u>\$ 80,699</u>

See independent auditor's report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, all State agencies, including the university and colleges, must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Governor reviews the agency requests, establishes priorities, and presents the Legislature with one or more pieces of legislation covering the biennium. The Legislature holds hearings on the Governor's proposed budget, adopts changes and presents final legislation to the Governor. The Governor can either: a) approve the appropriation 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 majority of the Legislature.

The approved appropriations set spending limits by fund type for programs within each agency. These limits may include up to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the State Accounting Division of the Department of Administrative Services.

Appropriations are made for each fiscal year of the biennium; balances at the end of the first fiscal year are carried over into the second fiscal year, unless directed otherwise by the Legislature. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the State differ from those presented in the basic financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources. Of these seven fund types, only the first five are subject to the spending limits set by the appropriations bills. The General Fund is the only major fund that corresponds to a budgetary fund type, so it is the only major fund presented in the required supplementary information.

General Fund. To account for activities funded by general tax dollars, primarily sales and income taxes.

Cash Reserve and Cash Funds. To account for financial resources used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations, to account for

the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis, and to account for the revenues and expenditures related to highway construction.

Construction Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities.

Federal Funds. To account for the financial resources related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts, except for federal highway monies accounted for in the Cash Funds.

Revolving Funds. To account for the financing of goods or services provided by one State agency to another State agency on a cost-reimbursement basis.

Trust Funds. To account for assets held in a trustee capacity.

Distributive Funds. To account for assets held as an agent for individuals, private organizations, and other governments and/or other funds.

The accompanying basic financial statements were prepared by converting budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2002, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2002, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

**REQUIRED SUPPLEMENTARY INFORMATION
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH**

For the Year Ended June 30, 2002

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of highway and bridges the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Measurement Scale

The Nebraska Department of Roads uses the Nebraska Serviceability Index (NSI) to measure and monitor pavement conditions. The NSI is a numerical pavement rating scale used to monitor the condition on a scale ranging from 0 to 100 with 0 being the worst and 100 being the best. NSI represents the condition of the pavement at the time of measurement and is based on pavement’s surface distresses. Surface distresses include, cracking, patching, roughness, rutting, and faulting.

Established Condition Level

It is the policy of the Nebraska Department of Roads to maintain at least an overall system rating of 72 percent or above.

Assessed Condition

The State assesses conditions on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Very Good”, “Good”, “Fair”, and “Poor”. This condition index is used to classify roads in very good (90-100), good (70-89), fair (50-69), and poor (0-49).

Calendar Year	2001	2000	1999	1998	1997
Very Good	48%	50%	51%	47%	50%
Good	36%	35%	35%	33%	26%
Fair	13%	13%	12%	18%	20%
Poor	3%	2%	2%	2%	4%
Overall System Rating	84.0%	84.0%	83.6%	82.7%	81.9%

Estimated and Actual Costs to Maintain

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal year (amounts in millions). The actual cost of system preservation will be greater than estimated as a result of maintaining the system at a NSI level higher than the base level established for GASB-34 purposes (72 base versus 84 actual).

Fiscal Year	2003	2002
Estimated	\$ 174	\$ 169
Actual		194
Difference		25



SINGLE AUDIT SECTION

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Agriculture, U.S. Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$ 266,904
Federal-State Marketing Improvement Program	Agriculture, Department of	10.156	1,224
State Mediation Program	Agriculture, Department of	10.435	132,373
Food Distribution	Health and Human Services System	10.550	6,879,689 ^
77 Food Stamp Cluster:			
Food Stamps	Health and Human Services System	10.551	71,764,571 ^
State Administrative Matching Grants for Food Stamp Program	Health and Human Services System	10.561	11,298,325 ^
Nutrition Cluster:			
School Breakfast Program	Education, Department of	10.553	6,255,874 *
National School Lunch Program	Education, Department of	10.555	32,157,826 *
Special Milk Program for Children	Education, Department of	10.556	120,415 *
Summer Food Service Program for Children	Education, Department of	10.559	793,974 *
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services System	10.557	19,969,761 *
Child and Adult Care Food Program	Education, Department of	10.558	21,444,050 *
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,046,403
State Administrative Expenses for Child Nutrition	Health and Human Services System	10.560	81,313
Commodity Supplemental Food Program	Health and Human Services System	10.565	3,540,333
Emergency Food Assistance Cluster:			
Temporary Emergency Food Assistance (Administrative Costs)	Health and Human Services System	10.568	238,437
Emergency Food Assistance (Food Commodities)	Health and Human Services System	10.569	1,242,553 ^
Nutrition Program for the Elderly	Health and Human Services System	10.570	1,415,668
Agricultural Statistics Reports	Agriculture, Department of	10.950	19,778
National Rural Development Partnership	Rural Development Commission	43-3157-8-RDP03	99,342
Forest Reserve	Education, Department of	N/A	35,733
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A	186,723
Senior's Farmers' Market Nutrition Pilot Program	Agriculture, Department of	N/A	112,194
State Grants to Promote Agriculture and the Emergency Food Assistance Program	Agriculture, Department of	N/A	724,159
Total U.S. Department of Agriculture			\$ <u>179,827,622</u>
Commerce, U.S. Department of			
Public Telecommunications Facilities-Construction and Planning	Educational Telecommunications Commission	11.550	\$ 558,899
Manufacturing Extension Partnership	Economic Development, Department of	11.611	553,448
Total U.S. Department of Commerce			\$ <u>1,112,347</u>
Corporation for National and Community Service			
State Commissions	Health and Human Services System	94.003	\$ 153,783
Learn and Serve America - School and Community Based Programs	Education, Department of	94.004	105,498
Americorps	Health and Human Services System	94.006	1,210,175
Planning and Program Development Grants	Health and Human Services System	94.007	146,871
Training and Technical Assistance	Health and Human Services System	94.009	72,729
Total Corporation for National and Community Service			\$ <u>1,689,056</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Defense, U.S. Department of			
Flood Control	Education, Department of	12.106	\$ 178,295
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	6,158,071 *
Defense Environmental Restoration Program	Environmental Quality, Department of	NE-00-1	82,845
Missouri River Ecology	Game and Parks Commission	DACW45-01-P-0191	127,297
Hamberg Project	Game and Parks Commissions	DACW45-6-97-6035	3,005
Missouri River Stabilization	Game and Parks Commission	DACW45-98-P-0526	57,098
Total U.S. Department of Defense			<u>\$ 6,606,611</u>
Education, U.S. Department of			
Direct Programs:			
Adult Education - State Grant Program	Education, Department of	84.002	\$ 2,155,449
Title I Programs Grants to Local Educational Agencies	Education, Department of	84.010	33,934,412
Migrant Education - Basic State Grant Program	Education, Department of	84.011	3,933,575
Title I Program for Neglected and Delinquent Children	Education, Department of	84.013	253,082
Special Education Cluster:			
Special Education - Grants to States	Education, Department of	84.027	46,774,132
Special Education - Preschool Grants	Education, Department of	84.173	2,673,879
Vocational Education - Basic Grants to States	Education, Department of	84.048	6,836,382 *
Leveraging Educational Assistance Partnerships	Postsecondary Education, Coordinating Commission for	84.069	217,117
Rehabilitation Services - Vocational Rehabilitation Grants to States	Blind and Visually Impaired Commission	84.126	2,343,243 *
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, Department of	84.126	11,733,038 *
Rehabilitation Services - Client Assistance Program	Education, Department of	84.161	113,919
Immigrant Education	Education, Department of	84.162	671,595
Independent Living-State Grants	Blind and Visually Impaired Commission	84.169	18,071
Independent Living-State Grants	Education, Department of	84.169	197,357
Older Blind	Blind and Visually Impaired Commission	84.177	281,007
Special Education-Grants for Infants and Families with Disabilities	Education, Department of	84.181	2,577,263
Robert C. Byrd Honors Scholarship	Education, Department of	84.185	253,500
Safe and Drug-Free Schools and Communities - State Grants	Education, Department of	84.186	1,622,600
Safe and Drug-Free Schools and Communities - State Grants	Health and Human Services System	84.186	274,088
Supported Employment Services for Individuals with Severe Disabilities	Blind and Visually Impaired Commission	84.187	47,034
Supported Employment Services for Individuals with Severe Disabilities	Education, Department of	84.187	269,999
Bilingual Education Support Services	Education, Department of	84.194	111,997
Education for Homeless Children and Youth	Education, Department of	84.196	114,011
Even Start - State Educational Agencies	Education, Department of	84.213	841,757
Fund for the Improvement of Education	Education, Department of	84.215	206,089
Capital Expenses	Education, Department of	84.216	14,499
Assistive Technology	Education, Department of	84.224	318,669
Rehabilitation Services Demonstration and Training Special Demonstration Programs	Blind and Visually Impaired Commission	84.235	318,503
Tech-Prep Education	Education, Department of	84.243	705,039
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired Commission	84.265	33,666
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	49,740
Goals 2000-State and Local Education Systemic Improvement Grants	Education, Department of	84.276	2,130,549
Eisenhower Professional Development State Grants	Education, Department of	84.281	1,393,919

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See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Education, U.S. Department of -- Continued			
Eisenhower Professional Development State Grants	Postsecondary Education, Coordinating Commission for	84.281	256,279
Innovation Education Program Strategies	Education, Department of	84.298	1,923,673
Technology Literacy Challenge Fund Grants	Education, Department of	84.318	1,859,020
Special Education-State Program Improvement Grants for Children with Disabilities	Education, Department of	84.323	539,738
Special Education-Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities	Education, Department of	84.326	171,549
Advanced Placement Incentive Program	Education, Department of	84.330	432
Grants to States for Incarcerated Youth Offenders	Corrections, Department of	84.331	20,270
Comprehensive School Reform Demonstration	Education, Department of	84.332	658,113
Teacher Quality Enhancement Grants	Education, Department of	84.336	1,073,621
Class Size Reduction	Education, Department of	84.340	6,398,897 *
Preparing Tomorrow's Teachers to Use Technology	Education, Department of	84.342	668,690
Occupational and Employment Information State Grants	Education, Department of	84.346	106,547
Title I Accountability Grants	Education, Department of	84.348	576,243
School Renovation Grants	Education, Department of	84.352	955,086
Cooperative Statistics	Education, Department of	N/A	33,651
Special Leveraging Educational Assistance Partnerships	Postsecondary Education, Coordinating Commission for	N/A	225,286
Passed Through Johnson County Community College: Technology Innovation Challenge Grants	Education, Department of	84.303	24,070
Total U.S. Department of Education			<u>\$ 138,910,345</u>
Energy, U.S. Department of			
State Energy Program (SEP)	Governor	81.041	\$ 362,482
Weatherization Assistance for Low-Income Persons	Governor	81.042	1,673,040
Regional Biomass Energy Programs	Governor	81.079	606,055
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Governor	81.117	205,514
State Energy Program Special Projects	Governor	81.119	271,683
Oil Overcharge Settlements - Amoco	Governor	N/A	28,414
Oil Overcharge Settlements - Exxon	Governor	N/A	1,302
Oil Overcharge Settlements - Stripper Well	Governor	N/A	246,912
Oil Overcharge Settlements - Diamond Shamrock	Governor	N/A	2,895
Crude Refund	Governor	N/A	51,302
State Government Agencies	Governor	N/A	1,050
Total U.S. Department of Energy			<u>\$ 3,450,649</u>
Environmental Protection Agency, U.S.			
State Indoor Radon Program	Health and Human Services System	66.032	\$ 70,643
Water Pollution Control - State and Interstate Program Support	Environmental Quality, Department of	66.419	216,274
State Public Water System Supervision	Health and Human Services System	66.432	858,394
State Underground Water Source Protection	Environmental Quality, Department of	66.433	58,555
State Underground Water Source Protection	Oil and Gas Commission	66.433	86,343
Water Quality Management Planning	Environmental Quality, Department of	66.454	79,159
Capitalization Grants for State Revolving Funds	Environmental Quality, Department of	66.458	12,227,108 *
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	2,476,008
Wetlands Grants	Environmental Quality, Department of	66.461	16,138

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Environmental Protection Agency, U.S. -- Continued			
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	32,238
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467	70,924
Capitalization Grants for Drinking Water State Revolving Fund	Environmental Quality, Department of	66.468	8,301,380
Hardship Grant Program Rural Communities	Environmental Quality, Department of	66.470	8,034
Performance Partnership Grant	Environmental Quality, Department of	66.605	3,520,899
Surveys, Studies, Investigations, and Special Purpose Grants	Environmental Quality, Department of	66.606	639,524
One Stop Reporting	Environmental Quality, Department of	66.608	156,982
Consolidated Pesticide Enforcement Cooperative Agreement	Agriculture, Department of	66.700	646,111
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	Health and Human Services System	66.707	155,604
Pollution Prevention Grants Program	Environmental Quality, Department of	66.708	172,922
Superfund State Core Program Cooperative Agreements	Environmental Quality, Department of	66.802	385,439
Hazardous Substance Response Trust Fund	Health and Human Services System	66.802	93,512
State and Tribal Underground Storage Tanks Program	Fire Marshal	66.804	209,968
Leaking Underground Storage Tank Trust Fund Program	Environmental Quality, Department of	66.805	654,207
Superfund State Site - Specific Cooperative Agreements (Superfund)	Environmental Quality, Department of	66.809	309,149
Total U.S. Environmental Protection Agency			\$ <u>31,445,515</u>
Equal Employment Opportunity Commission, U.S.			
Employment Discrimination-Title VII of the Civil Rights Act of 1964	Equal Opportunity Commission	30.001	\$ 1,236,618
Total U.S. Equal Employment Opportunity Commission			\$ <u>1,236,618</u>
Federal Emergency Management Agency			
Project & Planning Grant	Natural Resources, Department of	83.536	\$ 302,296
Individual and Family Grants	Military Department	83.543	16,989
Public Assistance Grants	Military Department	83.544	3,489,373
First Responder Counter Terrorism Training Assistance	Fire Marshal	83.547	67,803
Hazard Mitigation Grant	Military Department	83.548	3,550,625
National Dam Safety Program	Natural Resources, Department of	83.550	90,411
Emergency Management Performance Grants	Military Department	83.552	1,809,485
State Fire Training Systems Grants	Fire Marshal	83.553	23,887
Total Federal Emergency Management Agency			\$ <u>9,350,869</u>
General Services Administration			
Donations of Federal Surplus Personal Property	Corrections, Department of	39.003	\$ 414,338
Total General Services Administration			\$ <u>414,338</u>
Health and Human Services, U.S. Department of			
Public Health and Social Services Emergency Fund	Health and Human Services System	93.003	\$ 13,023
Special Programs for the Aging - Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services System	93.041	21,610
Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	Health and Human Services System	93.042	52,271
Special Programs for the Aging - Title III, Part F- Disease Prevention and Health Promotion Services	Health and Human Services System	93.043	116,772
Special Programs for the Aging Cluster:			
Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers	Health and Human Services System	93.044	2,326,784
Special Programs for the Aging - Title III, Part C-Nutrition Services	Health and Human Services System	93.045	3,656,903
Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	Health and Human Services System	93.048	340,620
Nation Family Caregiver Support Program	Health and Human Services System	93.052	411,491

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Health and Human Services, U.S. Department of -- Continued			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	Health and Human Services System	93.104	2,787,654
Maternal and Child Health Federal Consolidated Programs	Health and Human Services System	93.110	294,433
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services System	93.116	161,763
Nebraska MH Decision Support System/Data Enhancement Project	Health and Human Services System	93.119	41,203
Emergency Medical Services for Children	Health and Human Services System	93.127	137,827
Primary Care Services - Resource Coordination and Development-Primary Care Offices	Health and Human Services System	93.130	316,746
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services System	93.136	167,155
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services System	93.150	326,441
Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	Health and Human Services System	93.197	393,149
Family Planning - Services	Health and Human Services System	93.217	1,745,548
Consolidation Knowledge Development and Application Program	Health and Human Services System	93.230	3,030
Traumatic Brain Injury-State Demonstration Grant Program	Education, Department of	93.234	51,092
Abstinence Education	Health and Human Services System	93.235	224,268
State Rural Hospital Flexibility Program	Health and Human Services System	93.241	780,359
Unviersal Newborn Hearing Screening	Health and Human Services System	93.251	133,558
Immunization Grants	Health and Human Services System	93.268	6,328,542 * ^
Drug Abuse Research Programs	Health and Human Services System	93.279	52,271
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services System	93.283	2,723,218
Promoting Safe and Stable Families	Health and Human Services System	93.556	1,727,153
Temporary Assistance for Needy Families	Health and Human Services System	93.558	51,719,799 * ^
Child Support Enforcement	Health and Human Services System	93.563	29,889,751 * ^
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services System	93.566	1,189,467
Low-Income Home Energy Assistance	Health and Human Services System	93.568	13,432,833 *
Community Services Block Grant	Health and Human Services System	93.569	4,394,532
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	Health and Human Services System	93.571	17,320
Child Care Cluster:			
Child Care and Development Block Grant	Health and Human Services System	93.575	19,987,572 * ^
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services System	93.596	18,439,096 * ^
Refugee and Entrant Assistance-Discretionary Grants	Education, Department of	93.576	54,951
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services System	93.576	44,060
Refugee and Entrant Assistance- Targeted Assistance	Health and Human Services System	93.584	311,217
Community Based Family Resource and Support Grants	Health and Human Services System	93.590	199,925
Welfare Reform - Research, Evaluations, and National Studies	Health and Human Services System	93.595	195,662
Grants to States for Access and Visitation Programs	Health and Human Services System	93.597	65,590
Head Start	Education, Department of	93.600	142,689
Adoptive Incentive Payments	Health and Human Services System	93.603	102,196
Runaway and Homeless Youth	Health and Human Services System	93.623	76,813
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services System	93.630	501,289
Children's Justice Grants to States	Health and Human Services System	93.643	188,178
Child Welfare Services - State Grants	Health and Human Services System	93.645	2,516,969
Foster Care - Title IV-E	Health and Human Services System	93.658	21,805,664 * ^
Adoption Assistance	Health and Human Services System	93.659	5,382,437 ^
Social Services Block Grant	Health and Human Services System	93.667	10,977,296
Child Abuse and Neglect State Grants	Health and Human Services System	93.669	115,577
Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	Health and Human Services System	93.671	856,965
Independent Living	Health and Human Services System	93.674	1,255,394

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Health and Human Services, U.S. Department of -- Continued			
State Children's Insurance Program (CHIP)	Health and Human Services System	93.767	10,741,876 ^
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities (Ticket-to-Work Infrastructure Grants)	Health and Human Services System	93.768	384,993
Medicare-Supplementary Medical Insurance	Health and Human Services System	93.774	2,673,998 ^
Medicaid Cluster:			
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services System	93.777	3,385,331 * ^
Medical Assistance Program (Medicaid)	Health and Human Services System	93.778	816,113,143 * ^
State Court Improvement Program	Supreme Court, Nebraska	93.586	67,025
Health Care Financing Research, Demonstrations and Evaluations (HCFA Research)	Health and Human Services System	93.779	414,773
Health Care Financing Research, Demonstrations and Evaluations (HCFA Research)	Insurance, Department of	93.779	206,622
Grants to States for Operataion of Offices of Rural Health	Health and Human Services System	93.913	105,183
HIV Care Formula Grants	Health and Human Services System	93.917	1,649,930
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	Health and Human Services System	93.919	2,201,637
Healthy Start Initiative	Health and Human Services System	93.926	123,686
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938	32,554
HIV Prevention Activities - Health Department Based	Health and Human Services System	93.940	1,214,630
HIV Demonstration, Research, Public and Professional Education Projects	Health and Human Services System	93.941	5,332
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services System	93.944	134,453
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services System	93.945	389,348
Block Grants for Community Mental Health Services	Health and Human Services System	93.958	1,678,532
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services System	93.959	6,865,354 *
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services System	93.977	342,971
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services System	93.988	250,339
Preventive Health and Health Services Block Grant	Health and Human Services System	93.991	2,463,413
Maternal and Child Health Services Block Grant to States	Health and Human Services System	93.994	4,443,982 *
Tissue Residue Inspections	Agriculture, Department of	223-00-4007	35,977
Medicated Feed Inspection	Agriculture, Department of	223-00-4032	40,053
National Center for Health Statistics	Health and Human Services System	200-2000-07227	186,672
Food/Grain Warehouse Inspection	Agriculture, Department of	223-00-4079	25,242
FDA Partnership Agreement	Agriculture, Department of	N/A	5,073
Total U.S. Department of Health and Human Services			\$ 1,065,380,248
Housing & Urban Development, U.S. Department of			
Manufactured Homes	Public Service Commission	14.171	\$ 20,139
Community Development Block Grants/State's Program	Economic Development, Department of	14.228	17,625,521
Emergency Shelter Grants Program	Economic Development, Department of	14.231	167,362
Emergency Shelter Grants Program	Health and Human Services System	14.231	422,149
HOME Investment Partnerships Program	Economic Development, Department of	14.239	3,880,811
Fair Housing Assistance Program-State and Local	Equal Opportunity Commission	14.401	302,126
Health Home Initiatives Grants	Health and Human Services System	14.901	1,328
Total U.S. Department of Housing & Urban Development			\$ 22,419,436

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Interior, U.S. Department of			
Small Reclamation Projects	Game and Parks Commission	15.503	\$ 133,620
Fish and Wildlife Cluster:			
Sport Fish Restoration	Game and Parks Commission	15.605	2,866,606
Wildlife Restoration	Game and Parks Commission	15.611	2,590,536
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	11,509
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	75,691
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	561
Wildlife Conservation and Restoration	Game and Parks Commission	15.625	116,441
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	631,970
Outdoor Recreation-Acquisition, Development and Planning (Land and Water Conservation Fund Grants)	Game and Parks Commission	15.916	650,059
Least Tern and Piping Plover Protection	Game and Parks Commission	99041	3,428
Managing Rivers Resources	Game and Parks Commission	H6288A00009	27,321
Taylor Grazing	Education, Department of	N/A	618
Total U.S. Department of Interior			\$ 7,108,360
Justice, U.S. Department of			
Sex Offender Management Discretionary Grant	Health and Human Services System	16.203	\$ 5,352
State Level Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.501	45,276
Juvenile Accountability Incentives Block Grant	Law Enforcement and Criminal Justice, Commission for	16.523	3,132,865
Juvenile Justice and Delinquency Prevention - Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	1,093,731
Missing Children's Assistance	State Patrol	16.543	182,492
National Criminal History Improvement Program	State Patrol	16.554	434,942
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,478,839
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	35,979
Byrne Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579	3,906,733
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	State Patrol	16.580	10,287
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Corrections, Department of	16.586	181,398
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	1,068,553
Local Law Enforcement Block Grants Program	Law Enforcement and Criminal Justice, Commission for	16.592	178,862
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	403,599
State Criminal Alien Assistance Program	Corrections, Department of	16.606	378,557
State Domestic Preparedness Equipment Support Program	Military Department	16.607	31,100
Public Safety Partnership and Community Policing Grants	State Patrol	16.710	592,218
Enforcing Underage Drinking Laws Programs	Motor Vehicles, Department of	16.727	512,588
Operating Task Force (Cash Crop)	State Patrol	93-38	8,638
Criminal Justice Information System	Law Enforcement and Criminal Justice, Commission for	N/A	16,163
Total U.S. Department of Justice			\$ 14,698,172
Labor, U.S. Department of			
Labor Force Statistics	Labor, Department of	17.002	\$ 869,221
Compensation and Working Conditions	Worker's Compensation Court	17.005	30,151
Labor Certification for Alien Workers	Labor, Department of	17.203	124,929
Employment Services Cluster:			
Employment Service	Labor, Department of	17.207	6,671,454 *
Disabled Veterans' Outreach Program	Labor, Department of	17.801	365,012 *
Local Veterans' Employment Representative Program	Labor, Department of	17.804	523,133 *

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Labor, U.S. Department of -- Continued			
Unemployment Insurance - Federal	Labor, Department of	17.225	27,812,395 *
Unemployment Insurance - State	Labor, Department of	17.225	105,127,347 *
Senior Community Service Employment Program	Health and Human Services System	17.235	484,275
Workforce Investment Act Cluster:			
WIA - Adult Program	Labor, Department of	17.258	3,699,442 *
WIA - Youth Program	Labor, Department of	17.259	1,764,451 *
WIA - Dislocated Workers	Labor, Department of	17.260	3,911,855 *
Employment Services and Job Training - Pilot and Demonstration Programs	Labor, Department of	17.249	58,501
Welfare-to-Work Grants to States and Localities	Labor, Department of	17.253	1,286,860
One-Stop Career Center Initiative	Labor, Department of	17.257	2,006,071
Occupational Safety and Health	Labor, Department of	17.500	476,733
School to Work Opportunities Program	Economic Development, Department of	84.278	194,056
National Workplace Benefits Consortium	Labor, Department of	N/A	1,393
Total U.S. Department of Labor			<u>\$ 155,407,279</u>
Library of Congress			
Library Archives Film Preservation	Historical Society	N/A	\$ 1,848
Total Library of Congress			<u>\$ 1,848</u>
National Archives and Records Administration			
National Historical Publications and Records Grants	Historical Society	89.003	\$ 2,390
Total National Archives and Records Administration			<u>\$ 2,390</u>
National Foundation of Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	Arts Council	45.025	\$ 669,658
Promotion of the Humanities-Division of Preservation and Access	Historical Society	45.149	1,700
Institute of Museum and Library Services	Historical Society	45.301	14,063
Museum Assessment Program	Historical Society	45.302	1,620
Conservation Project Support	Historical Society	45.303	31,045
State Library Program	Library Commission	45.310	1,054,486
Library Archives	Historical Society	ND-00007-00	118,535
Total National Foundation of Arts and the Humanities			<u>\$ 1,891,107</u>
Social Security Administration			
Social Security - Disability Insurance	Education, Department of	96.001	\$ 7,386,948 *
Total Social Security Administration			<u>\$ 7,386,948</u>
Transportation, U.S. Department of			
Boating Safety Financial Assistance	Game and Parks Commission	20.005	\$ 273,760
Airport Improvement Program	Aeronautics, Department of	20.106	23,059,029 *
Highway Planning and Construction	Game and Parks Commission	20.205	627,820
Highway Planning and Construction	Roads, Department of	20.205	178,400,441
National Motor Carrier Safety	State Patrol	20.218	1,428,516
Federal Transit-Metropolitan Planning Grants	Roads, Department of	20.505	49,152
Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	2,113,911
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	711,574
State Planning and Research	Roads, Department of	20.515	32,154

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Year Ended June 30, 2002

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2002 Expenditures</u>
Transportation, U.S. Department of -- Continued			
Highway Safety Cluster:			
State and Community Highway Safety	Motor Vehicles, Department of	20.600	1,385,086
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Motor Vehicles, Department of	20.601	435,142
Occupant Protection	Motor Vehicles, Department of	20.602	183,371
Federal Highway Safety Data Improvements Incentive Grants	Motor Vehicles, Department of	20.603	144,529
Safety Incentive Grants for Use of Seatbelts	Motor Vehicles, Department of	20.604	135,430
Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons	State Patrol	20.605	470,930
Pipeline Safety	Fire Marshal	20.700	35,138
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	178,396
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-76	43,187
Crash Outcome Data Evaluation	Health and Human Services System	DTNH22-98-H-07086	77,473
CVISN - Motor Carrier Services	Motor Vehicles, Department of	MC-99-31-555	2,529
Statewide Occupant Protection-Special Selective Enforcement	Motor Vehicles, Department of	N/A	284,678
Joint Federal-State Motor Fuel Tax Compliance Project	Revenue, Department of	TCP-0001003	18,453
Total U.S. Department of Transportation			<u>\$ 210,090,699</u>
Treasury, U.S. Department of			
Gang Resistance Education and Training	State Patrol	21.053	\$ 20,812
Investigative Forfeiture	Revenue, Department of	N/A	1,845
Total U.S. Department of Treasury			<u>\$ 22,657</u>
Veterans Affairs, U.S. Department of			
Grants to States for Construction of State Home Facilities (State Home Construction)	Health and Human Services System	64.005	\$ 1,639,473
Veterans State Domiciliary Care	Health and Human Services System	64.014	607,803
Veterans State Nursing Home Care	Health and Human Services System	64.015	9,781,988
Veterans Education	Education, Department of	N/A	114,797
Total U.S. Department of Veterans Affairs			<u>\$ 12,144,061</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 1,870,597,175</u>

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See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Aeronautics, Department of			
Airport Improvement Program	Transportation, U.S. Department of	20.106	\$ 23,059,029 *
Total Department of Aeronautics			\$ 23,059,029
Agriculture, Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 266,904
Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156	1,224
State Mediation Program	Agriculture, U.S. Department of	10.435	132,373
Agricultural Statistics Reports	Agriculture, U.S. Department of	10.950	19,778
Consolidated Pesticide Enforcement Cooperative Agreement	Environmental Protection Agency, U.S.	66.700	646,111
Tissue Residue Inspections	Health and Human Services, U.S. Department of	223-00-4007	35,977
Medicated Feed Inspection	Health and Human Services, U.S. Department of	223-00-4032	40,053
Food/Grain Warehouse Inspection	Health and Human Services, U.S. Department of	223-00-4079	25,242
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	186,723
Senior's Farmers' Market Nutrition Pilot Program	Agriculture, U.S. Department of	N/A	112,194
State Grants to Promote Agriculture and the Emergency Food Assistance Program	Agriculture, U.S. Department of	N/A	724,159
FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	5,073
Total Department of Agriculture			\$ 2,195,811
Arts Council			
Promotion of the Arts - Partnership Agreements	National Foundation of Arts and the Humanities	45.025	\$ 669,658
Total Arts Council			\$ 669,658
Blind and Visually Impaired Commission			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	\$ 2,343,243 *
Independent Living - State Grants	Education, U.S. Department of	84.169	18,071
Older Blind	Education, U.S. Department of	84.177	281,007
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	47,034
Rehabilitation Services Demonstration and Training Special Demonstration Programs	Education, U.S. Department of	84.235	318,503
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	33,666
Total Blind and Visually Impaired Commission			\$ 3,041,524
Corrections, Department of			
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Justice, U.S. Department of	16.586	\$ 181,398
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	378,557
Donations of Federal Surplus Personal Property	General Services Administration	39.003	414,338
Grants to States for Incarcerated Youth Offenders	Education, U.S. Department of	84.331	20,270
Total Department of Corrections			\$ 994,563

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Economic Development, Department of			
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	\$ 553,448
Community Development Block Grants/State's Program	Housing & Urban Development, U.S. Department of	14.228	17,625,521
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	167,362
HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	3,880,811
School to Work Opportunities Program	Labor, U.S. Department of	84.278	194,056
Total Department of Economic Development			\$ 22,421,198
Education, Department of			
Direct Programs:			
Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	\$ 6,255,874 *
National School Lunch Program	Agriculture, U.S. Department of	10.555	32,157,826 *
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	120,415 *
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	793,974 *
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	21,444,050 *
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,046,403 *
Flood Control	Defense, U.S. Department of	12.106	178,295
Adult Education - State Grant Program	Education, U.S. Department of	84.002	2,155,449
Title I Programs Grants to Local Educational Agencies	Education, U.S. Department of	84.010	33,934,412
Migrant Education - Basic State Grant Program	Education, U.S. Department of	84.011	3,933,575
Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013	253,082
Special Education Cluster:			
Special Education - Grants to States	Education, U.S. Department of	84.027	46,774,132
Special Education - Preschool Grants	Education, U.S. Department of	84.173	2,673,879
Vocational Education - Basic Grants to States	Education, U.S. Department of	84.048	6,836,382 *
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	11,733,038 *
Rehabilitation Services - Client Assistance Program	Education, U.S. Department of	84.161	113,919
Immigrant Education	Education, U.S. Department of	84.162	671,595
Independent Living-State Grants	Education, U.S. Department of	84.169	197,357
Special Education-Grants for Infants and Families with Disabilities	Education, U.S. Department of	84.181	2,577,263
Robert C. Byrd Honors Scholarship	Education, U.S. Department of	84.185	253,500
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	1,622,600
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	269,999
Bilingual Education Support Services	Education, U.S. Department of	84.194	111,997
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	114,011
Even Start - State Educational Agencies	Education, U.S. Department of	84.213	841,757
Fund for the Improvement of Education	Education, U.S. Department of	84.215	206,089
Capital Expenses	Education, U.S. Department of	84.216	14,499
Assistive Technology	Education, U.S. Department of	84.224	318,669
Tech-Prep Education	Education, U.S. Department of	84.243	705,039
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	49,740
Goals 2000-State and Local Education Systemic Improvement Grants	Education, U.S. Department of	84.276	2,130,549
Eisenhower Professional Development State Grants	Education, U.S. Department of	84.281	1,393,919
Innovation Education Program Strategies	Education, U.S. Department of	84.298	1,923,673
Technology Literacy Challenge Fund Grants	Education, U.S. Department of	84.318	1,859,020

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Education, Department of -- Continued			
Special Education-State Program Improvement Grants for Children with Disabilities	Education, U.S. Department of	84.323	539,738
Special Education-Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities	Education, U.S. Department of	84.326	171,549
Advanced Placement Incentive Program	Education, U.S. Department of	84.330	432
Comprehensive School Reform Demonstration	Education, U.S. Department of	84.332	658,113
Teacher Quality Enhancement Grants	Education, U.S. Department of	84.336	1,073,621
Class Size Reduction	Education, U.S. Department of	84.340	6,398,897 *
Preparing Tomorrow's Teachers to Use Technology	Education, U.S. Department of	84.342	668,690
Occupational and Employment Information State Grants	Education, U.S. Department of	84.346	106,547
Title I Accountability Grants	Education, U.S. Department of	84.348	576,243
School Renovation Grants	Education, U.S. Department of	84.352	955,086
Traumatic Brain Injury-State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	51,092
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services, U.S. Department of	93.576	54,951
Head Start	Health and Human Services, U.S. Department of	93.600	142,689
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Health and Human Services, U.S. Department of	93.938	32,554
Learn and Serve America - School and Community Based Programs	Corporation For National and Community Service	94.004	105,498
Social Security - Disability Insurance	Social Security Administration	96.001	7,386,948 *
Forest Reserve	Agriculture, U.S. Department of	N/A	35,733
Cooperative Statistics	Education, U.S. Department of	N/A	33,651
Taylor Grazing	Interior, U.S. Department of	N/A	618
Veterans Education	Veterans Affairs, U.S. Department of	N/A	114,797
Passed Through Seward Public School System:			
Technology Innovation Challenge Grants	Education, U.S. Department of	84.303	24,070
Total Department of Education			<u>\$ 204,797,498</u>
Educational Telecommunications Commission			
Public Telecommunications Facilities-Construction and Planning	Commerce, U.S. Department of	11.550	<u>\$ 558,899</u>
Total Educational Telecommunications Commission			<u>\$ 558,899</u>
Environmental Quality, Department of			
Water Pollution Control - State and Interstate Program Support	Environmental Protection Agency, U.S.	66.419	\$ 216,274
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	58,555
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	79,159
Capitalization Grants for State Revolving Funds	Environmental Protection Agency, U.S.	66.458	12,227,108 *
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	2,476,008
Wetlands Grants	Environmental Protection Agency, U.S.	66.461	16,138
Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463	32,238
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467	70,924
Capitalization Grants for Drinking Water State Revolving Fund	Environmental Protection Agency, U.S.	66.468	8,301,380
Hardship Grant Program Rural Communities	Environmental Protection Agency, U.S.	66.470	8,034
Performance Partnership Grant	Environmental Protection Agency, U.S.	66.605	3,520,899

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Environmental Quality, Department of -- Continued			
Surveys, Studies, Investigations, and Special Purpose Grants	Environmental Protection Agency, U.S.	66.606	639,524
One Stop Reporting	Environmental Protection Agency, U.S.	66.608	156,982
Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708	172,922
Superfund State Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	385,439
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	654,207
Superfund State Site - Specific Cooperative Agreements (Superfund)	Environmental Protection Agency, U.S.	66.809	309,149
Defense Environmental Restoration Program	Defense, U.S. Department of	NE-00-1	82,845
Total Department of Environmental Quality			\$ 29,407,785
Equal Opportunity Commission			
Fair Housing Assistance Program-State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 302,126
Employment Discrimination-Title VII of the Civil Rights Act of 1964	Equal Employment Opportunity Commission, U.S.	30.001	1,236,618
Total Equal Opportunity Commission			\$ 1,538,744
Fire Marshal			
Pipeline Safety	Transportation, U.S. Department of	20.700	\$ 35,138
State and Tribal Underground Storage Tanks Program	Environmental Protection Agency, U.S.	66.804	209,968
First Responder Counter Terrorism Training Assistance	Federal Emergency Management Agency	83.547	67,803
State Fire Training Systems Grants	Federal Emergency Management Agency	83.553	23,887
Total Fire Marshal			\$ 336,796
Game and Parks Commission			
Small Reclamation Projects	Interior, U.S. Department of	15.503	\$ 133,620
Fish and Wildlife Cluster:			
Sport Fish Restoration	Interior, U.S. Department of	15.605	2,866,606
Wildlife Restoration	Interior, U.S. Department of	15.611	2,590,536
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	11,509
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	75,691
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	561
Wildlife Conservation and Restoration	Interior, U.S. Department of	15.625	116,441
Outdoor Recreation-Acquisition, Development and Planning (Land and Water Conservation Fund Grants)	Interior, U.S. Department of	15.916	650,059
Boating Safety Financial Assistance	Transportation, U.S. Department of	20.005	273,760
Highway Planning and Construction	Transportation, U.S. Department of	20.205	627,820
Least Tern and Piping Plover Protection	Interior, U.S. Department of	99041	3,428
Missouri River Ecology	Defense, U.S. Department of	DACW45-01-P-0191	127,297
Hamberg Project	Defense, U.S. Department of	DACW45-6-97-6035	3,005
Missouri River Stabilization	Defense, U.S. Department of	DACW45-98-P-0526	57,098
Managing Rivers Resources	Interior, U.S. Department of	H6288A00009	27,321
Total Game and Parks Commission			\$ 7,564,752
Governor			
State Energy Program (SEP)	Energy, U.S. Department of	81.041	\$ 362,482
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	1,673,040
Regional Biomass Energy Programs	Energy, U.S. Department of	81.079	606,055
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Energy, U.S. Department of	81.117	205,514

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Governor -- Continued			
State Energy Program Special Projects	Energy, U.S. Department of	81.119	271,683
Oil Overcharge Settlements - Amoco	Energy, U.S. Department of	N/A	28,414
Oil Overcharge Settlements - Exxon	Energy, U.S. Department of	N/A	1,302
Oil Overcharge Settlements - Stripper Well	Energy, U.S. Department of	N/A	246,912
Oil Overcharge Settlements - Diamond Shamrock	Energy, U.S. Department of	N/A	2,895
Crude Refund	Energy, U.S. Department of	N/A	51,302
State Government Agencies	Energy, U.S. Department of	N/A	1,050
Total Governor			<u>\$ 3,450,649</u>
Health and Human Services System			
Food Distribution	Agriculture, U.S. Department of	10.550	\$ 6,879,689
Food Stamp Cluster:			
Food Stamps	Agriculture, U.S. Department of	10.551	71,764,571
State Administrative Matching Grants for Food Stamp Program	Agriculture, U.S. Department of	10.561	11,298,325
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	19,969,761
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	81,313
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	3,540,333
Emergency Food Assistance Cluster:			
Temporary Emergency Food Assistance (Administrative Costs)	Agriculture, U.S. Department of	10.568	238,437
Emergency Food Assistance (Food Commodities)	Agriculture, U.S. Department of	10.569	1,242,553
Nutrition Program for the Elderly	Agriculture, U.S. Department of	10.570	1,415,668
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	422,149
Health Home Initiatives Grants	Housing & Urban Development, U.S. Department of	14.901	1,328
Sex Offender Management Discretionary Grant	Justice, U.S. Department of	16.203	5,352
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	484,275
Grants to States for Construction of State Home Facilities (State Home Construction)	Veterans Affairs, U.S. Department of	64.005	1,639,473
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	607,803
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	9,781,988 *
State Indoor Radon Program	Environmental Protection Agency, U.S.	66.032	70,643
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	858,394
Water Pollution Control - Research, Development, and Demonstration	Environmental Protection Agency, U.S.	66.505	
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	155,604
Hazardous Substance Response Trust Fund	Environmental Protection Agency, U.S.	66.802	93,512
Clean Air Act 112R Policy Development	Environmental Protection Agency, U.S.	66.810	
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	274,088
Public Health and Social Services Emergency Fund	Health and Human Services, U.S. Department of	93.003	13,023
Special Programs for the Aging - Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services, U.S. Department of	93.041	21,610
Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	Health and Human Services, U.S. Department of	93.042	52,271
Special Programs for the Aging - Title III, Part F- Disease Prevention and Health Promotion Services	Health and Human Services, U.S. Department of	93.043	116,772
Special Programs for the Aging Cluster:			
Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers	Health and Human Services, U.S. Department of	93.044	2,326,784
Special Programs for the Aging - Title III, Part C-Nutrition Services	Health and Human Services, U.S. Department of	93.045	3,656,903
Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	Health and Human Services, U.S. Department of	93.048	340,620
Nation Family Caregiver Support Program	Health and Human Services, U.S. Department of	93.052	411,491
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	Health and Human Services, U.S. Department of	93.104	2,787,654

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Health and Human Services System -- Continued			
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	294,433
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	161,763
Nebraska MH Decision Support System/Data Enhancement Project	Health and Human Services, U.S. Department of	93.119	41,203
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	137,827
Primary Care Services - Resource Coordination and Development-Primary Care Offices	Health and Human Services, U.S. Department of	93.130	316,746
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services, U.S. Department of	93.136	167,155
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	326,441
Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	Health and Human Services, U.S. Department of	93.197	393,149
Family Planning - Services	Health and Human Services, U.S. Department of	93.217	1,745,548
Consolidation Knowledge Development and Application Program	Health and Human Services, U.S. Department of	93.230	3,030
Abstinence Education	Health and Human Services, U.S. Department of	93.235	224,268
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	780,359
Unviersal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	133,558
Immunization Grants	Health and Human Services, U.S. Department of	93.268	6,328,542 *
Drug Abuse Research Programs	Health and Human Services, U.S. Department of	93.279	52,271
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	2,723,218
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,727,153
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	51,719,799 *
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	29,889,751 *
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services, U.S. Department of	93.566	1,189,467
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	13,432,833 *
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	4,394,532
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	Health and Human Services, U.S. Department of	93.571	17,320
Child Care Cluster:			
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	19,987,572 *
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	18,439,096 *
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services, U.S. Department of	93.576	44,060
Refugee and Entrant Assistance- Targeted Assistance	Health and Human Services, U.S. Department of	93.584	311,217
Community Based Family Resource and Support Grants	Health and Human Services, U.S. Department of	93.590	199,925
Welfare Reform - Research, Evaluations, and National Studies	Health and Human Services, U.S. Department of	93.595	195,662
Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	65,590
Adoptive Incentive Payments	Health and Human Services, U.S. Department of	93.603	102,196
Runaway and Homeless Youth	Health and Human Services, U.S. Department of	93.623	76,813
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630	501,289
Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	188,178
Child Welfare Services - State Grants	Health and Human Services, U.S. Department of	93.645	2,516,969
Foster Care - Title IV-E	Health and Human Services, U.S. Department of	93.658	21,805,664 *
Adoption Assistance	Health and Human Services, U.S. Department of	93.659	5,382,437
Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	10,977,296
Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	115,577
Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	Health and Human Services, U.S. Department of	93.671	856,965
Independent Living	Health and Human Services, U.S. Department of	93.674	1,255,394
State Children's Insurance Program (CHIP)	Health and Human Services, U.S. Department of	93.767	10,741,876
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities (Ticket-to-Work Infrastructure Grants)	Health and Human Services, U.S. Department of	93.768	384,993

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Health and Human Services System -- Continued			
Medicare-Supplementary Medical Insurance	Health and Human Services, U.S. Department of	93.774	2,673,998
Medicaid Cluster:			
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777	3,385,331 *
Medical Assistance Program (Medicaid)	Health and Human Services, U.S. Department of	93.778	816,113,143 *
Health Care Financing Research, Demonstrations and Evaluations (HCFA Research)	Health and Human Services, U.S. Department of	93.779	414,773
Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913	105,183
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917	1,649,930
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	Health and Human Services, U.S. Department of	93.919	2,201,637
Healthy Start Initiative	Health and Human Services, U.S. Department of	93.926	123,686
HIV Prevention Activities - Health Department Based	Health and Human Services, U.S. Department of	93.940	1,214,630
HIV Demonstration, Research, Public and Professional Education Projects	Health and Human Services, U.S. Department of	93.941	5,332
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944	134,453
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945	389,348
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	1,678,532
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	6,865,354 *
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	342,971
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988	250,339
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	2,463,413
Maternal and Child Health Services Block Grant to States	Health and Human Services, U.S. Department of	93.994	4,443,982 *
State Commissions	Corporation For National and Community Service	94.003	153,783
Americorps	Corporation For National and Community Service	94.006	1,210,175
Planning and Program Development Grants	Corporation For National and Community Service	94.007	146,871
Training and Technical Assistance	Corporation For National and Community Service	94.009	72,729
National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227	186,672
Crash Outcome Data Evaluation	Transportation, U.S. Department of	DTNH22-98-H-07086	77,473
Total Health and Human Services System			<u>\$ 1,197,205,260</u>
Historical Society			
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	\$ 631,970
Promotion of the Humanities-Division of Preservation and Access	National Foundation of Arts and the Humanities	45.149	1,700
Institute of Museum and Library Services	National Foundation of Arts and the Humanities	45.301	14,063
Museum Assessment Program	National Foundation of Arts and the Humanities	45.302	1,620
Conservation Project Support	National Foundation of Arts and the Humanities	45.303	31,045
National Historical Publications and Records Grants	National Archives and Records Administration	89.003	2,390
Library Archives Film Preservation	Library of Congress	N/A	1,848
Library Archives	National Foundation of Arts and the Humanities	ND-00007-00	118,535
Total Historical Society			<u>\$ 803,171</u>
Insurance, Department of			
Health Care Financing Research, Demonstrations and Evaluations (HCFA Research)	Health and Human Services, U.S. Department of	93.779	\$ 206,622
Total Department of Insurance			<u>\$ 206,622</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Labor, Department of			
Labor Force Statistics	Labor, U.S. Department of	17.002	\$ 869,221
Labor Certification for Alien Workers	Labor, U.S. Department of	17.203	124,929
Employment Services Cluster:			
Employment Service	Labor, U.S. Department of	17.207	6,671,454 *
Disabled Veterans' Outreach Program	Labor, U.S. Department of	17.801	365,012 *
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	523,133 *
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	27,812,395 *
Unemployment Insurance - State	Labor, U.S. Department of	17.225	105,127,347 *
Workforce Investment Act Cluster:			
WIA - Adult Program	Labor, U.S. Department of	17.258	3,699,442 *
WIA - Youth Program	Labor, U.S. Department of	17.259	1,764,451 *
WIA - Dislocated Workers	Labor, U.S. Department of	17.260	3,911,855 *
Employment Services and Job Training - Pilot and Demonstration Programs	Labor, U.S. Department of	17.249	58,501
Welfare-to-Work Grants to States and Localities	Labor, U.S. Department of	17.253	1,286,860
One-Stop Career Center Initiative	Labor, U.S. Department of	17.257	2,006,071
Occupational Safety and Health	Labor, U.S. Department of	17.500	476,733
National Workplace Benefits Consortium	Labor, U.S. Department of	N/A	1,393
Total Department of Labor			<u>\$ 154,698,797</u>
Law Enforcement and Criminal Justice, Commission for			
State Level Statistical Analysis Centers	Justice, U.S. Department of	16.501	\$ 45,276
Juvenile Accountability Incentives Block Grant	Justice, U.S. Department of	16.523	3,132,865
Juvenile Justice and Delinquency Prevention - Allocation to States	Justice, U.S. Department of	16.540	1,093,731
Crime Victim Assistance	Justice, U.S. Department of	16.575	2,478,839
Crime Victim Compensation	Justice, U.S. Department of	16.576	35,979
Byrne Formula Grant Program	Justice, U.S. Department of	16.579	3,906,733
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,068,553
Local Law Enforcement Block Grants Program	Justice, U.S. Department of	16.592	178,862
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	403,599
Criminal Justice Information System	Justice, U.S. Department of	N/A	16,163
Total Commission for Law Enforcement and Criminal Justice			<u>\$ 12,360,600</u>
Library Commission			
State Library Program	National Foundation of Arts and the Humanities	45.310	<u>1,054,486</u>
Total Library Commission			<u>\$ 1,054,486</u>
Military Department			
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	\$ 6,158,071 *
State Domestic Preparedness Equipment Support Program	Justice, U.S. Department of	16.007	31,100
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	178,396
Individual and Family Grants	Federal Emergency Management Agency	83.543	16,989
Public Assistance Grants	Federal Emergency Management Agency	83.544	3,489,373
Hazard Mitigation Grant	Federal Emergency Management Agency	83.548	3,550,625
Emergency Management Performance Grants	Federal Emergency Management Agency	83.552	1,809,485
Total Military Department			<u>\$ 15,234,039</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
Motor Vehicles, Department of			
Enforcing Underage Drinking Laws Programs	Justice, U.S. Department of	16.727	\$ 512,588
Highway Safety Cluster:			
State and Community Highway Safety	Transportation, U.S. Department of	20.600	1,385,086
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Transportation, U.S. Department of	20.601	435,142
Occupant Protection	Transportation, U.S. Department of	20.602	183,371
Federal Highway Safety Data Improvements Incentive Grants	Transportation, U.S. Department of	20.603	144,529
Safety Incentive Grants for Use of Seatbelts	Transportation, U.S. Department of	20.604	135,430
Statewide Occupant Protection-Special Selective Enforcement	Transportation, U.S. Department of	DTNH22-00-G-09075	284,678
CVISN - Motor Carrier Services	Transportation, U.S. Department of	MC-99-31-555	2,529
Total Department of Motor Vehicles			\$ <u>3,083,353</u>
Natural Resources, Department of			
Project & Planning Grant	Federal Emergency Management Agency	83.536	\$ 302,296
National Dam Safety Program	Federal Emergency Management Agency	83.550	90,411
Total Department of Natural Resources			\$ <u>392,707</u>
Oil and Gas Commission			
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	\$ 86,343
Total Oil and Gas Commission			\$ <u>86,343</u>
Postsecondary Education, Coordinating Commission for			
Leveraging Educational Assistance Partnerships	Education, U.S. Department of	84.069	\$ 217,117
Eisenhower Professional Development State Grants	Education, U.S. Department of	84.281	256,279
Special Leveraging Educational Assistance Partnerships	Education, U.S. Department of	84.01AB	225,286
Total Coordinating Commission for Postsecondary Education			\$ <u>698,682</u>
Public Service Commission			
Manufactured Homes	Housing & Urban Development, U.S. Department of	DV100K900016698	\$ 20,139
Total Public Service Commission			\$ <u>20,139</u>
Revenue, Department of			
Joint Federal-State Motor Fuel Tax Compliance Project	Transportation, U.S. Department of	TCP-0001003	\$ 18,453
Investigative Forfeiture	Treasury, U.S. Department of	N/A	1,845
Total Department of Revenue			\$ <u>20,298</u>
Roads, Department of			
Highway Planning and Construction	Transportation, U.S. Department of	20.205	\$ 178,400,441
Federal Transit-Metropolitan Planning Grants	Transportation, U.S. Department of	20.505	49,152
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	2,113,911
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	711,574
State Planning and Research	Transportation, U.S. Department of	20.515	32,154
Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-76	43,187
Total Department of Roads			\$ <u>181,350,419</u>
Rural Development Commission			
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	\$ 99,342
Total Rural Development Commission			\$ <u>99,342</u>

^ - Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2002

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>Grant #</u>	<u>Expenditures</u>
State Patrol			
Missing Children's Assistance	Justice, U.S. Department of	16.543	\$ 182,492
National Criminal History Improvement Program	Justice, U.S. Department of	16.554	434,942
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Justice, U.S. Department of	16.580	10,287
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	592,218
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	1,428,516
Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons	Transportation, U.S. Department of	20.605	470,930
Gang Resistance Education and Training	Treasury, U.S. Department of	21.053	20,812
Operating Task Force (Cash Crop)	Justice, U.S. Department of	93-38	8,638
Total State Patrol			<u>\$ 3,148,835</u>
Supreme Court, Nebraska			
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	\$ 67,025
Total Nebraska Supreme Court			<u>\$ 67,025</u>
Worker's Compensation Court			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	\$ 30,151
Total Worker's Compensation Court			<u>\$ 30,151</u>
 TOTAL FEDERAL AWARDS EXPENDED			 <u>\$ 1,870,597,175</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal awards programs of the State of Nebraska (the State) except as noted in note 2 below. The State's reporting entity is defined in note 1B to the State's basic financial statements. Federal awards received directly from federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective federal agency. Due to the decentralized operations of the State, the accumulation of amounts passed to subrecipients by the State is not practical.

Note 2: Summary of Significant Accounting Policies

A. Reporting Entity

The State's reporting entity is defined in note 1B to the basic financial statements. The accompanying Schedule includes the federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2002.

Federal awards, if any, for the following discretely presented component units of the State are reported upon separately by other auditors.

University of Nebraska
Nebraska State College System

B. Basis of Presentation

The accompanying Schedule presents total expenditures for each federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA), whenever possible.

1. **Federal Awards** - Pursuant to OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal awards, including food stamps, food commodities, food vouchers, surplus property, and vaccines, are included as federal awards and are reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals.
2. **Major Programs** - In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are considered major programs.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

C. Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting, except for certain amounts reported by the Health and Human Services System (HHSS). The amounts for HHSS denoted with a caret (^) were taken from the federal financial status reports.

1. **Grants Between State Agencies** - Certain primary recipient State Agencies pass grant money through to subrecipient State Agencies. These transactions are only shown in the primary recipient's expenditures on the accompanying Schedule to avoid overstating the aggregate level of federal awards expended by the State. However, purchases of services between State Agencies using federal monies are reported as expenditures by the purchasing Agency and as revenue for services by the providing Agency in the State's basic financial statements.
2. **Matching Costs** - The Schedule does not include matching expenditures from general revenues of the State.
3. **Non-Monetary Assistance** - The Schedule contains amounts for non-monetary assistance programs. The Food Stamp program is presented at the dollar value of food stamp coupons disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The Childhood Immunization vaccines are presented at the value assigned by the U.S. Department of Health and Human Services.
4. **Fixed Price Contracts** - Certain federal awards programs are reimbursed based on a fixed price for a service and not the actual expenditure made by the State. Under these circumstances, the amounts shown on the Schedule represents the amount of assistance received from the federal government, not the amount expended by the State.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Note 3: Non-Monetary Assistance Inventory

As described in note 2, non-monetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2002, the following inventories of non-monetary assistance at the State level existed:

<u>Assistance</u>	<u>Inventory balance at June 30, 2002</u>
Food Stamps	\$ 10,957,920
Food Commodities	2,088,095
Vaccines	829,379

Note 4: Commodity Supplemental Food Program and Childhood Immunization Grants

As described in note 2, included in expenditures for the Commodity Supplemental Food program are \$2,840,929 of non-monetary federal assistance in the form of food commodities. The U.S. Department of Agriculture, upon direction from the HHSS, delivers the commodities directly to the subrecipients for distribution. Included in the expenditures for the Childhood Immunization Grants is \$4,711,222 of non-monetary federal assistance in the form of vaccines.

Note 5: Federal Loans Outstanding

The State administers the following loan programs for which the federal government imposes continuing compliance requirements (other than repayment of the loan) on the following outstanding balances:

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding balance at June 30, 2002</u>
14.228	Community Development Block Grant	\$ 2,066,827
20.308	Local Rail Freight Assistance Loan Program	\$ 95,798
66.458	Capitalization Grants for State Revolving Funds	\$ 83,044,395
66.468	Capitalization Grants for Drinking Water State Revolving Fund	\$ 30,707,482
84.176	Paul Douglass Teacher Scholarship Loan Program	\$ 194,598

New loans from these programs in the amount of \$19,681,381 are included as current year expenditures.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Note 6: Oil Overcharge Settlement Funds

The Nebraska Energy Office has committed various Oil Overcharge Settlement funds for use in a revolving loan program. Funds, which have been loaned and repaid, are available for new loans. Outstanding loan balances of Oil Overcharge Settlement funds are not included in the determination of major federal award programs since the federal government does not impose continuing compliance requirements on these loans. The amounts included as expenditures on the Schedule includes only new loans made from any current year's Oil Overcharge Settlement funds received by the State.

Note 7: Airport Improvement Program

The Nebraska Department of Aeronautics acts as an agent for the various Airport Improvement Program grants funded through the Federal Aviation Administration. The grants represent agreements between the Federal Aviation Administration and various cities, counties, and airport authorities. The Department of Aeronautics' primary responsibilities are processing of requests for reimbursement and reviewing the requests to determine allowability of program expenditures. The amount of reimbursements passed through to the respective cities, counties, or airport authorities are included as expenditures on the Schedule.



**Independent Auditors' Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial Statements
Performed In Accordance With *Government Auditing Standards***

The Honorable Governor,
Members of the Legislature and
Citizens of the State of Nebraska:

We have audited the basic financial statements of the State of Nebraska as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002, which referred to the implementation of new accounting standards. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 13.2% and 16.1%, of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund and the State and County Employee's Retirement Plans, is based on the reports of the other auditors. 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 State of Nebraska's basic 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item #02-12-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the State of Nebraska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #02-12-01 and #02-65-01.

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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition items #02-12-01 and #02-65-01 identified above to be material weaknesses.

We also noted other matters involving internal control over financial reporting that we have reported to the management of the respective State Agencies in separate letters dated December 20, 2002.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ KPMG LLP

December 20, 2002
Lincoln, Nebraska



**Independent Auditors' Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance
In Accordance With OMB Circular A-133**

The Honorable Governor,
Members of the Legislature and
Citizens of the State of Nebraska:

Compliance

We have audited the compliance of the State of Nebraska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The State of Nebraska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Nebraska's management. Our responsibility is to express an opinion on the State of Nebraska's compliance based on our audit.

The basic financial statements of the State of Nebraska include the operations of component units, which received federal awards during the year ended June 30, 2002. Our audit described below, did not include the operations of the component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska's compliance with those requirements.

Scope Limitations

We were unable to obtain sufficient documentation regarding the compliance of the State of Nebraska for the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State of Nebraska's compliance with those requirements by other auditing procedures.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
84.048	Vocational Education - Basic Grants to States	Reporting	02-13-01
93.994	Maternal and Child Health Services Block Grant	Earmarking	02-26-08

Qualifications

As identified below and described in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to the identified major federal programs.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
17.207, 17.801 & 17.804	Employment Services Cluster	Cash Management	02-23-01
17.225	Unemployment Insurance	Cash Management	02-23-01
66.458	Capitalization Grants	Reporting	02-84-01
83.544	Public Assistance Grants	Subrecipient Monitoring	02-31-01
83.548	Hazard Mitigation Grant	Subrecipient Monitoring	02-31-01
83.552	Emergency Management Performance Grants	Subrecipient Monitoring	02-31-01
84.126	Vocational Rehabilitation	Eligibility	02-13-02
93.558	Temporary Assistance for Needy Families	Reporting	02-26-01
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	02-26-02
93.563	Child Support Enforcement	Subrecipient Monitoring	02-26-05
93.563	Child Support Enforcement	Special Tests and Provisions	02-26-06
93.563	Child Support Enforcement	Special Tests and Provisions	02-26-07
93.568	Low-Income Home Energy Assistance	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility	02-26-03
93.658	Foster Care	Eligibility	02-26-10

In our opinion, except for noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements described in the second preceding paragraph, the State of Nebraska complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item #02-26-04.

Internal Control Over Compliance

The management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Nebraska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Nebraska's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #02-13-01, #02-13-02, #02-13-03, #02-23-01, #02-23-02, #02-26-01, #02-26-02, #02-26-03, #02-26-05, #02-26-06, #02-26-07, #02-26-08, #02-26-09, #02-26-10, #02-26-11, #02-31-01, #02-65-01, and #02-84-01.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items #02-26-01, #02-26-10, and #02-65-01 to be material weaknesses.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ KPMG LLP

December 20, 2002
Lincoln, Nebraska

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

I. Summary of Auditors' Results

- a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unqualified.
- b) Reportable conditions in internal control were disclosed by the audit of the financial statements and are included in the schedule of findings and questioned costs in Part II as items #02-12-01 and #02-65-01, both of which are also considered material weaknesses.
- c) The audit disclosed an instance of noncompliance, which is material to the State's basic financial statements and is included in the schedule of findings and questions costs in Part II as item #02-12-01.
- d) Reportable conditions in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as #02-13-01, #02-13-02, #02-13-03, #02-23-01, #02-26-01, #02-26-02, #02-26-03, #02-26-05, #02-26-06, #02-26-07, #02-26-08, #02-26-09, #02-26-10, #02-26-11, #02-31-01, #02-65-01, and #02-84-01.

We consider items #02-26-01, #02-26-10 and #02-65-01 to be material weaknesses in internal control over the major programs.

- e) Type of report issued on compliance for major programs: Qualified and Disclaimer
- f) The audit disclosed audit findings, which are required to be reported in accordance with section .510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III.
- g) The following are considered major programs:

CFDA #s 10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
CFDA #10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.558	Child and Adult Care Food Program
CFDA #12.401	National Guard Military Operations and Maintenance Projects

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

CFDA #'s 17.207, 17.801 & 17.804	Employment Services Cluster
CFDA #17.225	Unemployment Insurance
CFDA #'s 17.258, 17.259, & 17.260	Workforce Investment Act Cluster
CFDA #20.106	Airport Improvement Program
CFDA #64.015	Veterans State Nursing Home Care
CFDA #66.458	Capitalization Grants for State Revolving Funds
CFDA #84.048	Vocational Education - Basic Grants to States
CFDA #84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA #84.340	Class Size Reduction
CFDA #93.268	Immunization Grants
CFDA #93.558	Temporary Assistance for Needy Families
CFDA #93.563	Child Support Enforcement
CFDA #93.568	Low-Income Home Energy Assistance
CFDA #'s 93.575 & 93.596	Child Care Cluster
CFDA #93.658	Foster Care - Title IV-E
CFDA #'s 93.777 & 93.778	Medicaid
CFDA #93.959	Block Grants for Prevention and Treatment of Substance Abuse
CFDA #93.994	Maternal and Child Health Services Block Grant to States
CFDA #96.001	Disability Insurance/SSI Cluster

- h) Dollar threshold used to distinguish between Type A and Type B programs: \$5,901,075.
- i) The State did not qualify as a low-risk auditee.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*:

DEPARTMENT OF TREASURY

Finding #02-12-01

Criteria: In accordance with LB1274, Section 9, if a bank or capital stock financial institution designated as a depository furnishes securities pursuant to the Public Funds Deposit Security Act, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than 102 percent of the amount on deposit which is in excess of the amount so insured.

Condition: At June 30, 2002, \$2,468,361 of deposits at a financial institution were not collateralized as required by the above statute.

Questioned Costs: None.

Context: The Department has some monitoring procedures in place; however, they do not ensure compliance with this statute on a daily basis.

Cause: Cash balances can fluctuate significantly from day to day, requiring more frequent monitoring than is currently being performed by the Department.

Effect: The Department is not in compliance with this statute.

Recommendation: We encourage the Department to implement procedures necessary to ensure consistent compliance with this statute.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

DEPARTMENT OF ADMINISTRATIVE SERVICES (DAS)

Finding #02-65-01

Criteria: The preparation of reconciliations between the actual bank statements and the accounting records (NAS), and the related disposition of reconciling items is an essential element of control in safeguarding cash and providing accurate interim and annual financial information.

Condition: The State has an established reconciliation process in place; however, the following areas need to be addressed:

- The variance shifts from month to month which still indicates unknown reconciling items continue to exist.
- No adjustment has been made for the portion of the variance which is due to prior errors.
- No adjustments have been made for the carryover reconciling items related to the Investment Council.
- Although a reconciliation is being performed, some reconciling items are not posted to the general ledger at year end.
- The reconciliations are not being performed nor reviewed in a timely manner.
- Monitoring and developing procedures to capture reconciling activity from new systems.

Questioned Costs: None.

Context: Unknown reconciling items continue to exist which increases the risk of future variance increases and cash continues to be understated as adjustments to correct NAS have not yet been posted.

Cause: Complexity of reconciliation.

Effect: Interim cash reports produced by NAS and annual financial statements do not accurately reflect the State's cash balance which may lead to errors in the managerial decision making process.

Recommendation: We recommend the State continue to investigate the shift in the variance to determine the cause and establish policies and procedures related to posting adjustments in a timely manner to ensure cash is accurately reported. In addition, we recommend the reconciliations be prepared in a timely manner and someone other than the preparer review them shortly after completion.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

Finding #02-13-01

Program: CFDA #84.048 - Vocational Education – Basic Grants – Reporting

Federal Grantor Agency: U.S. Department of Education

Criteria: Each year a grantee must file an accountability report containing data as to whether it met its adjusted performance levels for each of its core indicators of performance and any State indicators of performance. Each grantee must provide data for each sub indicator of the four core indicators: (1) attainment of academic and vocational skills, (2) attainment of diploma or credential, (3) placement and retention, and (4) participation in non-traditional occupations. Each grantee's sub indicators for each program year are contained in the "Final Agreed-Upon Baseline and Adjusted Levels of Performance" which are incorporated by reference into the grantee's State plan and grant award and transmitted to the grantee with the grant award documents. Grantees that exceed their adjusted performance levels are eligible for an incentive grant (Section 113(b)(2)(A) of Perkins III (20 USC 2323 (b)(2)(A)).

An Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

Condition: Certain data reported could not be traced to supporting documentation.

Questioned Costs: None.

Context: Complete supporting documentation was not available for four of the six data elements tested. Two of these four data elements are included in many calculations throughout the report.

Cause: The following reasons caused the occurrence of this finding:

- The Department has experienced turnover in management personnel over the past year including those that prepare and review the Department's performance report.
- The Department's current reporting process does not contain a formal process for maintaining adequate supporting documentation.
- Current review procedures only include reviewing the reports for overall reasonableness and not for accuracy of reported amounts.

Effect: Inability to test the accuracy of the reports and the limited review procedures currently in place heighten the risk that future reports may contain inaccurate information.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Recommendation: To help ensure future reports are submitted in a timely and accurate manner, we suggest the Department implement the following:

- Formally document report preparation procedures, especially for complex amounts.
- Develop formal policies for maintaining adequate supporting documentation.
- Analyze and strengthen current report review procedures.

Finding #02-13-02

Program: CFDA #84.126 - Rehabilitation Services Vocational Rehabilitation (VR) Grants to States - Eligibility

Federal Grantor Agency: U.S. Department of Education

Criteria: The State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless:

1. Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State Agency and the individual agree to a specific extension of time; or
2. The State VR Agency is exploring an individual's abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

Condition: Three of 40 eligibility determinations exceeded the 60 day requirement and there was no documentation indicating it was a result of either of the above two exceptions.

Questioned Costs: None.

Context: The determinations for the exceptions noted were made between 6 and 50 days of the required timeframe.

Cause: Lack of adequate resources.

Effect: Noncompliance with the eligibility requirement.

Recommendation: We encourage the Department to more closely monitor the number of days taken to determine eligibility and take appropriate action to ensure determinations are made within 60 days.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding #02-13-03

Program: CFDA #84.126 - Rehabilitation Services - Vocational Rehabilitation (VR) Grants to States – Period of Availability, Reporting and Matching

Federal Grantor Agency: U.S. Department of Education

Criteria: Federal funds appropriated for a fiscal year remain available for obligation in the succeeding fiscal year only to the extent that the State Agency met the matching requirement for those federal funds by obligating, in accordance with 34 CFR section 76.707, the non-federal share in the fiscal year for which the funds were appropriated. An amount is considered obligated if it is owed to the vendor for services performed or goods received. According to Title I of the Rehabilitation Act of 1973 Sections 7(14) and 111(A)(1), the state share of expenditures made by the State Agency under the State Plan, including expenditures for the provision of Vocational Rehabilitation services and the administration of the State Plan is 21.3 percent.

Condition: Two of forty State matching expenditures, made in the succeeding fiscal year and reported as obligated in the first year of the 2000 award period, were for services performed and/or goods received in the succeeding fiscal year.

Questioned Costs: None.

Context: The two exceptions noted in the condition above amounted to \$12,281. In response to this finding, the Department performed a review of all other matching disbursements to determine the extent of this condition over the entire population. Based on this review, an additional \$12,990 of match expenditures were found to be coded to the wrong period. The Department has already made the necessary transfers from match charged to succeeding grant years which also qualified as match for the grant year tested to correct these exceptions and ensure the match is adequate and agrees to the amounts reported. Additionally, the Department has implemented an additional supervisory review for all future grant years.

Cause: Adequate review procedures were not in place to ensure that the expenditures were coded to the correct grant period.

Effect: Prior to correction of the problem, the Department inappropriately coded certain matching expenditures to be the wrong grant year.

Recommendation: We encourage the Department to continue to perform the additional review procedures in order to ensure the expenditures are coded to the appropriate grant year.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

DEPARTMENT OF LABOR

Finding #02-23-01

Program: CFDA #17.207, #17,801, #17.804 – Employment Services Cluster – Cash Management
CFDA #17.225 – Unemployment Insurance (UI) – Cash Management

Federal Grantor Agency: U.S. Department of Labor

Criteria: The Cash Management Improvement Act Agreement between the State of Nebraska and the U.S. Department of the Treasury section 6.2.3 states the State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. Regulation 34 CFR Part 205, Subpart B, states the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State.

Condition: The Department draws funds down from the various programs it administers to pay for actual invoices for each program. However, the Department must estimate the amount of payroll expenditures to be drawn from each program and then true up the variances periodically once actual payroll expenditures are known. These true ups have not been performed timely, leaving excess cash on hand for the Employment Services Cluster and Unemployment Insurance programs.

Questioned Costs: None.

Context: Of the three months reviewed, the Department did not true-up the variance in a timely manner.

Cause: The Department monitors the drawdowns compared to actual expenditures once they are known; however, action to correct any variances is not taken in a timely manner in some cases.

Effect: The Department is not complying with cash management requirements.

Recommendation: To ensure your monitoring control is operating effectively, we recommend the Department take timely action in response to noted variances between drawdowns based on estimates and actual expenditures once they are known.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding #02-23-02

Program: CFDA #'s 17.258, 17.259 and 17.260 – Workforce Investment Act – Reporting

Federal Grantor Agency: U.S. Department of Labor

Criteria: According to OMB Circular A-133, a Department has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

Condition: The Department does not perform a review of quarterly reports.

Questioned Costs: None.

Context: Eighteen of eighteen reports selected for testing were not reviewed.

Cause: The Department does not have procedures in place ensure all reports are reviewed by someone other than the preparer.

Effect: The Department does not have a supervisory review in place which increases the risk of errors in reporting.

Recommendation: We recommend the Department establish a supervisory review of quarterly reports.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

HEALTH AND HUMAN SERVICES SYSTEM

Finding #02-26-01

Program: CFDA #93.558 – Temporary Assistance to Needy Families – Reporting

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Form ACF-199, *TANF Data Report (OMB No. 0970-0199)* is submitted quarterly on the basis of information collected monthly. This report is required beginning with the first quarter of fiscal year 2000.

Condition: We selected the report for the quarter ending December 31, 2001 to test; however, it has not yet been completed.

Questioned Costs: None.

Context: The first quarter report was submitted and we tested it without exception; however, the second and third quarter reports have not been submitted.

Cause: The first quarter report was prepared timely; however, edit error corrections on the submitted data has caused a delay in the preparation of the second quarter report. The Department is working with the Federal Agency to correct edit errors on the first quarter report. When these are corrected, they will submit the second and third quarter reports.

Effect: Inability to test the report selected.

Recommendation: We recommend the Department continue to dedicate the needed resources to help ensure the reports are submitted in an accurate and timely manner. In the future, we further recommend the Department establish procedures to ensure any new reporting requirements are addressed in a timely manner.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding #02-26-02

Program: CFDA #93.558 – Temporary Assistance to Needy Families – Special Tests and Provision #1 (Child Support Non-Cooperation)

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25% from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to 5% of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

Condition: The Department currently does not have adequate procedures in place to ensure appropriate action is taken by the caseworkers upon receipt of the notification of non-cooperation.

Questioned Costs: None.

Context: The Department relies partly on Food Stamp supervisory reviews; however, this does not cover all notifications.

Cause: Lack of adequate resources.

Effect: Increased risk of benefit overpayments.

Recommendation: We recommend the Department consider implementing an overall monitoring procedure to ensure appropriate action is taken by caseworkers.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding #02-26-03

Program: CFDA #93.568 – Low-Income Home Energy Assistance – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: According to OMB Circular A-133, a Department has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

Condition: For the determination of eligibility and authorization of payment, the Department relies on caseworkers. A supervisory review of the caseworkers' duties has been developed; however, the results of the reviews are not consistently documented and the reviews are not implemented in all local offices. In addition, the Department is currently investigating several instances of accused fraud occurring during the current fiscal year.

Questioned Costs: Unknown.

Context: Various levels of no segregation of duties exist and adequate review may not be performed to ensure compliance with eligibility or allowability requirements.

Cause: With the large increase in the number of recipients receiving aid, the Department no longer has adequate resources to implement and document the necessary controls for allowability and eligibility requirements.

Effect: The Department does not have a consistent supervisory review in place, which increases the risk of disbursing federal funds for unallowable activities to non-eligible participants mistakenly or fraudulently.

Recommendations: We recommend the Department establish supervisory review policies and procedures for all local offices to follow to assist in detecting errors or instances of fraud; or, we suggest the Department expand the reviews performed by the Department's quality control program to include this program.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding #02-26-04

Program: CFDA #93.568 – Low-Income Home Energy Assistance – Reporting

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The Department is required to submit a report entitled “Carryover and Reallotment Report” under 42 USC 8626. This report outlines the funds expended for the year, and the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment.

Condition: Amounts expended per the “Carryover and Reallotment Report” for federal fiscal year 2001 do not agree to the information in the accounting records supporting the audited financial statements.

Questioned Costs: Unknown.

Context: The unreconcilable amount is approximately \$9,400.

Cause: The reconciliation between the LIHEAP system and NAS was not performed during completion of the report.

Effect: Inability to agree the reports to the accounting records.

Recommendations: The Department has since implemented reconciliation procedures to ensure reports are accurate and there are no unexplained variances between the systems. We encourage the Department to monitor the operating effectiveness of this new control.

Finding #02-26-05

Program: CFDA #93.563 – Child Support Enforcement – Subrecipient Monitoring

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states that the pass-through entity is responsible for identifying to the subrecipient the federal award information and applicable compliance requirements, monitoring the subrecipients’ activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with requirements, and ensuring required audit reports are performed and requiring the subrecipient to take prompt corrective action on any finding, and evaluating the impact of subrecipient activities on the pass-through ability to comply with applicable federal regulations.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

45 CFR Section 302.12(a)(3) states that if the IV-D agency delegates any of the functions of the IV-D program to any other State or local agency or official, or any official with whom a cooperative agreement has been entered into, the IV-D agency shall have responsibility for securing compliance with the requirements of the State plan by such agency or officials.

Condition: Single audit reports and related documentation indicating follow-up on findings were not obtained for any of the subrecipients.

Questioned Costs: Unknown.

Context: Distributions to the counties account for approximately 50% of total expenditures.

Cause: The Department does not have a process in place and/or personnel designated to perform monitoring procedures related to single audit reports.

Effect: Since the Department does not ensure that the counties are in compliance, the counties may not be properly and efficiently processing cases, accurately recording transactions, nor aware of any possible performance weaknesses that could be improved upon.

Recommendations: We recommend the Department develop policies and procedures to ensure required single audit reports are obtained; for example, by utilizing a monitoring list. In addition, we suggest the Department develop a checklist to be completed during the review process to ensure consistent and complete procedures are performed.

Finding #02-26-06

Program: CFDA #93.563 – Child Support Enforcement – Special Tests and Provisions (Paternity)

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The State IV-D Agency must attempt to establish paternity and a support obligation for children born out of wedlock. The State IV-D agency must establish a support obligation when paternity is not an issue. These services must be provided for any children in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5). These services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and 303.4(d).

Establishment of Paternity and Support Order - The State must have and use procedures required in this paragraph in at least 75% of the cases reviewed (45 CFR Section 308.2 (b)).

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Condition: Caseworkers are not consistently taking steps to follow up on all leads and services were not processed within the 90 days in some cases. For the cases reviewed by the Self Assessment Division only 70% indicated the State used the above procedures.

Questioned Costs: None.

Context: Of the 44 cases tested by the Self Assessment division, 13 were not in compliance. Eight errors were due to service of process was not initiated within 90 days. Five errors were due to that not all leads were exhausted by the Title IV-D agency.

Cause: The State has not taken corrective action to ensure the above procedures are performed.

Effect: Noncompliance with the special test requirement and the 75% minimum requirement.

Recommendations: We recommend the Agency review the cause of the errors and implement procedures to help eliminate them in the future.

Finding #02-26-07

Program: CFDA #93.563 – Child Support Enforcement – Special Tests and Provisions (Medical Support)

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (1) available evidence that health insurance may be available to the absent parent at reasonable cost, and (2) facts which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR 303.31(b)(1)-(4)).

Securing and Enforcing Medical Support Order – A State must have and use procedures required under this paragraph in at least 75% of the cases reviewed (45 CFR Section 308.2 (e)).

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Condition: Caseworkers are not consistently taking steps to verify if health insurance is available through the non-custodial parent and a petition for medical assistance was not obtained in some cases. For the cases reviewed by the Self Assessment Division only 66% indicated the State used the above procedures.

Questioned Costs: None.

Context: Of the 32 cases tested by the Self Assessment division, 11 were in not in compliance. Six errors were due to steps not taken to verify if the health insurance was available through the non-custodial parent. Three errors were noted that there was no follow-up on insurance verification. One error was noted for failure by the Title IV-D Agency to modify a court order for a Medicaid customer. The final error noted that the Agency failed to notify Medicaid of insurance coverage.

Cause: The Agency has not taken corrective action to ensure the above procedures are performed.

Effect: Noncompliance with the special test requirement and the 75% minimum requirement.

Recommendations: We recommend the Agency review the cause of the errors and implement procedures to help eliminate them in the future.

Finding #02-26-08

Program: CFDA #93.994 – Maternal and Child Health Services Block Grant – Earmarking

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: (1) Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment of amounts for preventive and primary case services for children (42 USC 705(a)(3)(A)). (2) Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment of amounts for services for children with special health care needs (42 USC 705 (a)(3)(B)). (3) A State may not use more than 10% of allotted funds for administrative expenses (42 USC 704(d)).

Condition: Inability to determine if the State met the requirements.

Questioned Costs: Unknown.

Context: The Agency does not track expenditures by allotment/grant year.

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Cause: The Agency tracks expenditures based on the Federal fiscal year and not by the allotment/grant period. The Agency tracks expenditures based on the Federal fiscal year because they are required to report the expenditures in this format. Therefore, we were unable to determine if the Agency was in compliance.

Effect: Inability to determine if the Agency is in compliance with the earmarking requirements.

Recommendations: We recommend the Agency implement procedures to track their expenditures by allotment/grant year so they can ensure they meet the earmarking requirements.

Finding #02-26-09

Program: CFDA #93.268 – Immunization Grants – Subrecipient Monitoring

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure that subrecipients have met the audit requirements as set forth in the Single Audit Act Amendments of 1996 and revised OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (45 CFR 74.51 and 74.26).

Condition: The Agency subgrants funds to certain non-profit clinics as part of the Immunization grant. There are limited procedures implemented by the Agency to determine if subgrantees were required to have a Single Audit performed.

Questioned Costs: Unknown.

Context: The Agency does have procedures in place to monitor compliance with allowability, eligibility, and special test requirements. Although we obtained single audits for all 4 subrecipients selected, which provided a 58% coverage over subgrantee aid expenditures, the Agency does not have procedures in place to ensure that the Agency receives the Single Audit reports from all required subgrantees.

Cause: The Agency currently does not have adequate procedures in place to track which subgrantees require a Single Audit and whether the Agency has received all Single Audits from the subgrantees that require a Single Audit.

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Effect: The Agency is unable to provide reasonable assurance the subgrantees are in compliance with Federal requirements.

Recommendation: We recommend the Agency develop a monitoring tool as well as formal written policies and procedures to ensure that all required Single Audit reports are received and reviewed.

Finding #02-26-10

Program: CFDA #93.658 – Foster Care – Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: According to OMB Circular A-133, an Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. The Agency performs yearly reviews of case files to ensure only eligible recipients continue to receive IV-E funding.

Condition: The yearly review of case files to review eligibility is not being completed in a timely manner.

Questioned Costs: None.

Context: Four of the 50 cases selected for testing were not reviewed in the current year.

Cause: Although the caseworker received an alert from NFOCUS that a review was due, action was not taken.

Effect: Caseworkers are not in compliance with the Agency's internal control policies. This increases the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency enforce the review policies and procedures that are in place by monitoring that action is taken on alerts received by caseworkers.

Finding #02-26-11

Program: CFDA #93.575 & 93.596 – Child Care Cluster – Allowable Costs/Cost Principles

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: According to OMB Circular A-133, an Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

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Condition: The Agency requires billing documents to be submitted by providers summarizing total units of care and claim amounts. The Agency considers this the source document for all childcare claims. For in-home daycares, the Agency requires an attendance sheet be signed by the parent/guardian of each child and submitted with the billing document as control over the accuracy of the billing document. For daycare centers, the attendance sheet is not required to be signed by the parent/guardian. As a result, there is no control in place to ensure the billing documents submitted by daycare centers are accurate.

Questioned Costs: None.

Context: Approximately 59% of total aid was paid to daycare centers.

Cause: The Agency does not believe it would be practical to require parents/guardians of children in daycare centers to sign an attendance sheet for each billing period due to the potential time involved with obtaining these signatures.

Effect: Without adequate controls over daycare centers, the Agency is at risk of disbursing federal funds for unallowable costs.

Recommendation: We encourage the Agency to develop procedures to identify or prevent potential fraud at daycare centers.

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Year ended June 30, 2002

DEPARTMENT OF MILITARY

Finding #02-31-01

Program: CFDA #83.544 – Public Assistance Grant – Subrecipient Monitoring
CFDA #83.548 – Hazard Mitigation Grant – Subrecipient Monitoring
CFDA #83.552 – Emergency Management Performance Grant – Subrecipient Monitoring

Federal Grantor Agency: Federal Emergency Management Agency (FEMA)

Criteria: According to OMB Circular A-133, *Compliance Supplement (M) Sub-recipient Monitoring*, a pass-through entity is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.

Condition: The Department performs subrecipient monitoring for programs #83.544 and #83.548 in the form of desk audits of expenses, receiving single audits for the required projects, and limited site visits; however, the site visits are not documented. For the Local Emergency Management Performance Grants (LEMA) #83.552 to local agencies, there is not adequate subrecipient monitoring. They receive single audits for any required project, but do not do any desk audits or site visits.

Questioned Costs: Unknown.

Context: The Department only requires the signature of an authorized individual from LEMA as proof of expenses for the month. One of the four documents tested for the Hazard Mitigation Grants did not include site visits or back-up documentation to complete a desk audit.

Cause: The Department stated they were previously unaware of the requirement to perform subrecipient monitoring of the Local Emergency Management Agencies they award grants to. At the time of our fieldwork, the Business Manager for NEMA had attended a conference on subrecipient monitoring and began the process of developing procedures to comply with OMB Circular A-133.

Effect: Inability to ensure expenses are allowable and accurate. Without adequate monitoring the Department is at risk of disbursing federal funds for unallowable costs.

Recommendation: We recommend the Department develop procedures to ensure the subrecipient administers Federal awards in compliance with Federal requirements. This could include adequate desk audits, reviewing single audits for required grant projects and site visits that are properly documented, including the date of the visit and the actions performed.

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DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #02-84-01

Program: CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Fund – Reporting

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The Code of Federal Regulations requires annual submission of the SF-272, Federal Cash Transactions Report to the Environmental Protection Agency bi-annually (40 CRF 30.52). The report is to be submitted for the periods ending December 31 and June 30 and is to be submitted within 90 days following the end of the period.

Condition: As of October 2002, the SF-272 Federal Cash Transactions Report had not been prepared or submitted for either period in fiscal year 2002.

Questioned Costs: None.

Context: A required report was not submitted to the federal agency.

Cause: No procedure in place to ensure the report was prepared and submitted.

Effect: The Department did not submit required reports in a timely manner.

Recommendation: We recommend the Department implement controls to ensure reports are completed and filed with the federal agency in accordance with federal requirements.