

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
NATURAL RESOURCES**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA DEPARTMENT OF NATURAL RESOURCES

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NEBRASKA DEPARTMENT OF NATURAL RESOURCES

BACKGROUND

The Department of Natural Resources was established on July 1, 2000 when the former Department of Water Resources and Natural Resources Commission were merged into a single agency. The Department is responsible for the administration and enforcement of State water laws pertaining to water quantity, well registration, and dam and reservoir construction approval and inspection. The Department negotiates and administers water compacts and administers court decrees with surrounding states. The Department also serves as the official agency of the State in connection with soil and water conservation, flood prevention, watershed protection, and flood control.

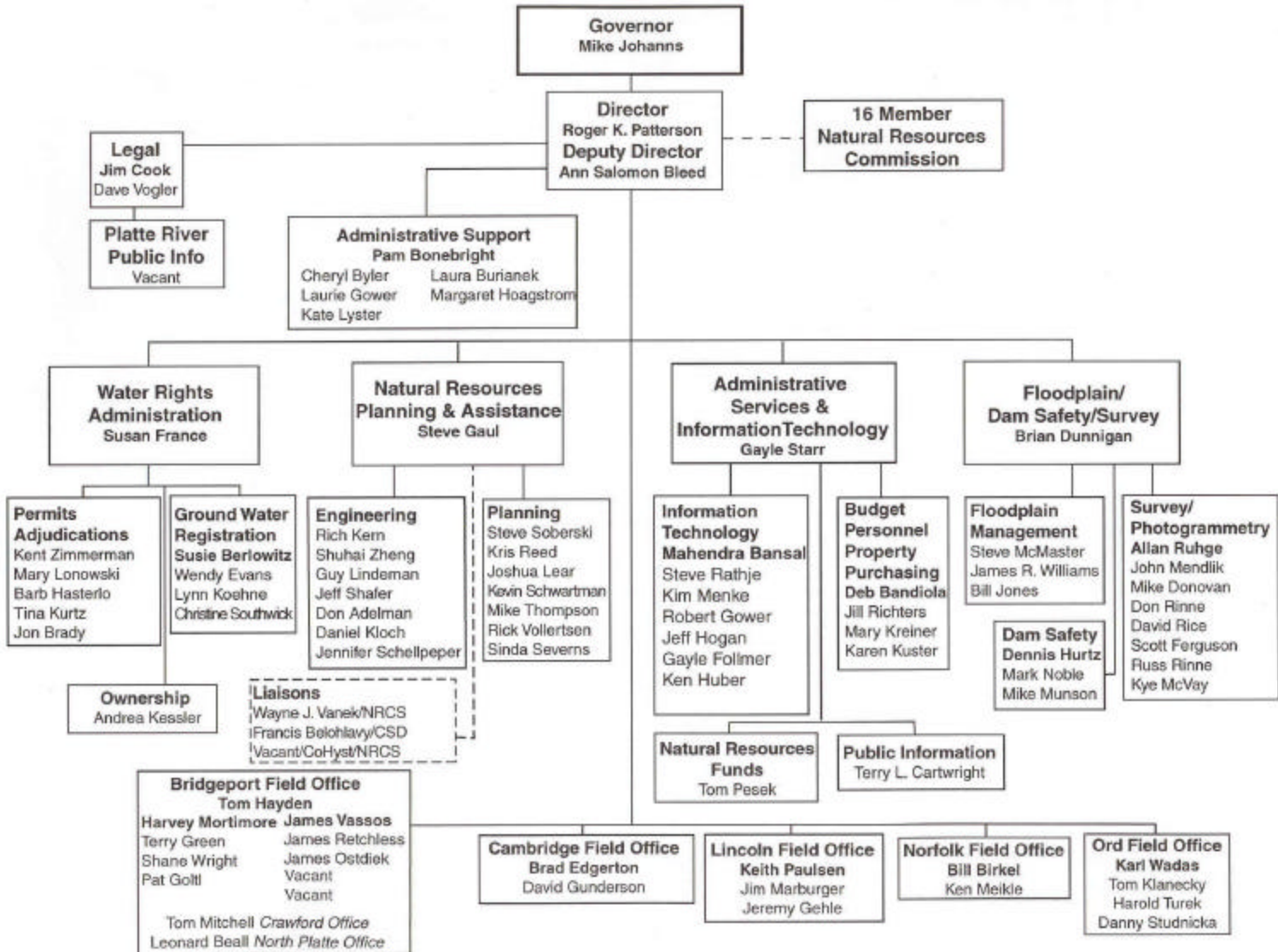
Sixteen members make up the Nebraska Natural Resources Commission, of which thirteen represent the State's recognized river basins. The Governor appoints the other three members with approval by the Legislature. Commission members representing river basins are selected for four-year terms. The Nebraska Natural Resources Commission carries out certain specific responsibilities in connection with natural resources districts. In addition, the Commission is responsible for adopting and amending the Department rules and regulations for the Small Watersheds Flood Control Fund, the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund, the Water Well Decommission Fund, and the Natural Resources Water Quality Fund, all of which are administered by the Department of Natural Resources.

MISSION STATEMENT

Administer and regulate surface water; direct floodplain management and dam safety programs; assemble and share data on land, water, and related resources in a user friendly manner; provide natural resources planning assistance; register ground water wells and issue permits; manage State cost-share programs in an expedient and cost-effective manner to assure proper use and protection of Nebraska's land, water, and related resources.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF NATURAL RESOURCES

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Natural Resources, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Natural Resources Water Quality Fund Expenditures:*** State Statutes and Rules and Regulations require funds to be allocated to Natural Resources Districts (NRDs) for programs related to water quality. Unused allocations may be reallocated to another NRD and the NRDs were required to match the funds received. The Department did not review the records of the NRDs to ensure compliance with State Statute and Rules and Regulations.
2. ***Excessive Fund Balance:*** The June 30, 2002 fund balance for the Department of Natural Resources Cash Fund was \$435,384. Disbursements for the fiscal year were \$15,544.
3. ***Procedures Over Capital Assets:*** One employee performed most functions related to fixed assets without compensating controls. In addition, errors were noted during our testing of capital asset transactions.
4. ***Expense Reimbursements:*** Expense reimbursements were not submitted on a monthly basis as required by State Statute.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Department declined to respond.

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

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

COMMENTS AND RECOMMENDATIONS

1. Natural Resources Water Quality Fund Expenditures

Good internal control requires monitoring procedures be established and implemented to ensure aid payments disbursed are expensed in accordance with applicable laws. Neb. Rev. Stat. Section 2-15,123 R.S.Supp., 2002 required the funds be used for programs related to water quality as specified. Title 263 NAC 3-002 requires the NRD to spend at least three dollars in funds from non-State sources for every two dollars expended from the Water Quality Fund.

We noted the Department of Natural Resources should improve monitoring of Natural Resources Water Quality Fund expenditures. The Department disbursed \$1,250,000 from the fund to Natural Resources Districts (NRDs) in fiscal year 2002. The NRDs were required to annually certify to the Department the total expenditures of the Natural Resources Water Quality Funds and matching funds for the program. However, the Department did not periodically review the records of the NRDs to ensure expenditures were in accordance with State Statutes and Rules and Regulations. Without adequate monitoring, NRDs may not be using the funds as required and the match requirement may not be met. This was a prior audit comment.

We recommend the Department implement monitoring procedures to periodically review the records of NRDs to ensure compliance with State Statutes and Rules and Regulations.

2. Excessive Fund Balance

Sound accounting practice requires the Department to analyze the cost of providing services to ensure fees charged are reasonable.

The Department of Natural Resources Cash Fund balance at June 30, 2002 was \$435,384. During the year \$15,544 was disbursed from the fund. The fund balance has increased over the past fiscal years due to the collection of survey fees. During the fiscal year ending June 30, 2002 the Department collected \$43,395 in update notice fees assessed per Neb. Rev. Stat. Section 46-230 R.S.Supp., 2002. The fee for filing the notice was \$20. The fund balance was enough to cover disbursements for several years without additional receipts.

Without adequate procedures for the review of fund balances, the Department cannot determine if fees charged are excessive. The fund balance appeared to be excessive.

We recommend the Department implement procedures for the review of fund balances to ensure fees charged for services are reasonable. We recommend the Department take the necessary steps to ensure fund balances are not excessive.

COMMENTS AND RECOMMENDATIONS

3. Procedures Over Capital Assets

Good internal control requires proper segregation of duties or adequate compensating controls. Sound accounting practices require the capital asset listing be kept current and accurate. There is an increased risk of error or misuse of capital assets without proper segregation of duties or compensating controls.

One employee was performing most functions related to capital assets. This employee added purchases, deleted items, and maintained the capital assets records. This employee also completed the annual physical inventory. Fiscal year 2002 capital asset purchases were not added to the capital asset inventory listing until after the end of the fiscal year. In addition we noted items purchased for less than the \$1,500 capitalization policy that were coded to 4800 capital outlay accounts and should have been coded to supplies account codes. We also noted for certain items the capital asset purchase amount that was added to the capital asset inventory listing did not agree to the purchase price of the item. This was a comment in the prior audit.

We recommend another person reconcile capital asset purchases coded to 4800 capital outlay accounts on the General Ledger to capital asset additions on the capital asset inventory list, and periodically review a history report from the Statewide Inventory Systems (SWIS) to ensure all capital asset deletions were properly made. We also recommend capital assets be added to the SWIS on a current basis and items with a purchase price below the \$1,500 capitalization policy be coded to supplies account codes.

4. Expense Reimbursements

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999, requires requests for expense reimbursements be submitted each month.

Three of ten expense reimbursements tested were not submitted on a monthly basis. This resulted in noncompliance with State statute. This was a comment in a prior audit.

We recommend the Department request expense reimbursements be submitted monthly in compliance with Section 81-1174.

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INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Natural Resources (Department), as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

Pat Reding, CPA
Asst. Deputy Auditor
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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 our audit provides a reasonable basis for our opinions.

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As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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Also, as discussed in Note 1, the financial statements of the Nebraska Department of Natural Resources, are intended to present the cash balances and changes in

cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Department of Natural Resources. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Natural Resources, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2003, on our consideration of the Nebraska Department of Natural Resource's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor fund financial statements, schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules, except for that portion marked "unaudited," on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

May 8, 2003

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Natural Resource's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Department of Natural Resources for the fiscal year ended June 30, 2002. Please read it in conjunction with the Department's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Department of Natural Resource's basic financial statements. The Department's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Department's overall financial status. Over time, increases or decreases in the Department's net assets are one indicator of whether its financial health is improving or deteriorating. The Department's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Department. Nonfinancial factors also need to be considered to assess the overall health of the Department. Agency-wide financial statements divide the Department into three kinds of activities:

Governmental activities – The Department's basic services are included here. These activities are generally financed through taxes, charges for services, and Federal grants.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Department had no business-type activities for fiscal year ended June 30, 2002.

Component units – No component units for the Department were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Department, reporting the Department's operations in more detail than the agency-wide statements by providing information about the Department's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Department currently has no proprietary funds.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiduciary fund statements provide information about financial relationships in which the Department acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Department currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as combining statements for non-major funds (which are shown in the fund financial statements in a single column), and schedules of Disbursements by Program, Direct Aid Payments to Natural Resources Districts, Water Rights Applications, Well Registrations, and Dam Inspections. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Department of Natural Resource's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Department (current assets resulting from cash basis transactions) increased sixty percent.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2002</u>	<u>2001</u>	
Restricted	\$ 302,114	\$ 421,884	-28%
Unrestricted	2,341,850	1,227,819	91%
Total Net Assets	<u>\$ 2,643,964</u>	<u>\$ 1,649,703</u>	<u>60%</u>

The increase in Total Net Assets resulted from an increase in the fund balance for Fund 2554 (Natural Resources Water Quality Fund). The fund balance at June 30, 2001 was \$8,943 compared to the fund balance at June 30, 2002, which was \$1,039,781. The fund received a fertilizer fee until December 31, 2000, which generated approximately \$2.25 million a year. In fiscal year 2001, the Department distributed \$2.2 million to the Natural Resources Districts which closed out the fertilizer fee collection. Effective July 1, 2001, the fund now receives a portion of a pesticide fee which generates approximately \$1.25 million a year. The State Treasurer in July 2001 transferred \$1 million from the Pesticide Administrative Cash Fund to Fund 2554 for distribution to the Natural Resources Districts. The Department distributed approximately \$1.25 million in October 2001. The next distribution was not until August 2002 which left a balance at June 30, 2002, of \$1,039,781.

Governmental Activities

Receipts for the Department's governmental activities increased four percent, while expenses decreased one percent.

(Continued on Next Page)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2002</u>	<u>2001</u>	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 541,045	\$ 348,674	55%
Operating Grants & Contributions	261,753	489,945	-47%
General Receipts:			
Appropriations	16,952,908	16,168,068	5%
Investment Interest	97,215	96,979	0%
Total Receipts	<u>17,852,921</u>	<u>17,103,666</u>	<u>4%</u>
DISBURSEMENTS:			
Conservation of Natural Resources	<u>18,948,116</u>	<u>19,213,093</u>	<u>-1%</u>
Total Disbursements	<u>18,948,116</u>	<u>19,213,093</u>	<u>-1%</u>
Excess (Deficiency) before Other Financing Sources and Uses	(1,095,195)	(2,109,427)	48%
OTHER FINANCING SOURCES & USES	<u>2,089,456</u>	<u>1,056,131</u>	<u>98%</u>
Increase (Decrease) in Net Assets	994,261	(1,053,296)	194%
Beginning Net Assets July 1	<u>1,649,703</u>	<u>2,702,999</u>	<u>-39%</u>
Ending Net Assets June 30	<u>\$ 2,643,964</u>	<u>\$ 1,649,703</u>	<u>60%</u>

The increase in Other Financing Sources and Uses resulted from Neb. Rev. Stat. Section 2-2627 R.S.Supp., 2002 which required the State Treasurer to transfer \$1 million from the Pesticide Administrative Cash Fund (Department of Agriculture) to the Natural Resources Water Quality Fund on or before July 15, 2001.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Department of Natural Resources uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fund 2551 - (Small Watersheds Flood Control Fund) – Disbursements increased because more aid for the Watershed program was distributed. The Papio Missouri Natural Resources District had two projects during fiscal year 2002 while the Nemaha Natural Resources District had one project during fiscal year 2001. Variances in this fund will depend on the number and size of watershed projects each year.

Fund 2554 - (Natural Resources Water Quality Fund) – see explanation noted before in Changes in Net Assets.

Fund 2660 - (Department of Natural Resources Cash Fund) – The Department of Water Resources merged with the Natural Resources Commission on July 1, 2000 to form the Department of Natural Resources. The fund balance of \$71,317 for Fund 2687 (Water Resources Cash Fund) was transferred to Fund 2660 to merge the cash funds also. The transfer was made at the beginning of the new biennium budget.

Fund 4552 - (Federal Water Resources Plan Fund) – The variance in federal receipts was due to less funding in the form of reimbursements in fiscal year 2002. Aid payments also decreased in fiscal year 2002. During fiscal year 2001 there were two large aid payments to municipalities. The City of Superior received \$104,336 and the City of Fort Calhoun received \$90,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Department of Natural Resources.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 2,641,057
Customer Deposits	150
Deposit with Vendors	2,757
	2,757
Total Assets	\$ 2,643,964
Net Assets	
Restricted for:	
Federal Water Reserve Plan	\$ 302,114
Unrestricted	2,341,850
	2,341,850
Total Net Assets	\$ 2,643,964

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

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Function: Conservation of Natural Resources	
Personal Services	\$ 4,459,263
Operating	6,073,929
Travel	332,105
Capital Asset Purchases	218,433
Government Aid	7,864,386
Total Disbursements	18,948,116
Program Receipts:	
Charges for Services	541,045
Operating Grants & Contributions	261,753
Net Program (Disbursements)	(18,145,318)
General Receipts and Other Financing Sources & Uses:	
Appropriations	16,952,908
Unrestricted Investment Interest	97,215
Other Financing Sources & Uses	2,089,456
Total General Receipts and Other Financing Sources & Uses	19,139,579
Change in Net Assets	994,261
Net Assets July 1, 2001	1,649,703
Net Assets June 30, 2002	\$ 2,643,964

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

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Funds					Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Small Watersheds Flood Control Fund 2551	Natural Resources Water Quality Fund 2554	Department of Natural Resources Cash Fund 2660	Federal Water Resources Plan Fund 4552		
Assets							
Cash in State Treasury	\$ -	\$ 605,889	\$ 1,039,781	\$ 435,384	\$ 302,114	\$ 257,889	\$ 2,641,057
Customer Deposits	150	-	-	-	-	-	150
Deposit with Vendors	2,757	-	-	-	-	-	2,757
Total Assets	\$ 2,907	\$ 605,889	\$ 1,039,781	\$ 435,384	\$ 302,114	\$ 257,889	\$ 2,643,964
Fund Balances							
Reserved for:							
Customer Deposits	\$ 150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150
Postage	2,757	-	-	-	-	-	2,757
Unreserved	-	605,889	1,039,781	435,384	302,114	257,889	2,641,057
Total Fund Balances	\$ 2,907	\$ 605,889	\$ 1,039,781	\$ 435,384	\$ 302,114	\$ 257,889	\$ 2,643,964

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

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

	Major Funds		
	General Fund 1000	Small Watersheds Flood Control Fund 2551	Natural Resources Water Quality Fund 2554
RECEIPTS:			
Appropriations	\$ 16,952,908	\$ -	\$ -
Federal Grants & Contracts	441	-	-
Sales & Charges	61,883	5,571	-
Miscellaneous:			
Investment Interest	-	32,397	34,783
Other Miscellaneous	6,012	-	-
TOTAL RECEIPTS	<u>17,021,244</u>	<u>37,968</u>	<u>34,783</u>
DISBURSEMENTS BY FUNCTION:			
Conservation of Natural Resources	16,952,908	150,163	1,015,000
TOTAL DISBURSEMENTS	<u>16,952,908</u>	<u>150,163</u>	<u>1,015,000</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>68,336</u>	<u>(112,195)</u>	<u>(980,217)</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	683	127,139	-
Deposits to General Fund	(69,019)	-	-
Outs	(150)	-	-
Adjustments to Fund Balance	-	-	-
Deposits to Common Fund	-	-	1,011,055
Operating Transfers In	-	-	1,000,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(68,486)</u>	<u>127,139</u>	<u>2,011,055</u>
Net Change in Fund Balances	(150)	14,944	1,030,838
FUND BALANCES, JULY 1, 2001	<u>3,057</u>	<u>590,945</u>	<u>8,943</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 2,907</u>	<u>\$ 605,889</u>	<u>\$ 1,039,781</u>

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

Department of Natural Resources Cash Fund 2660	Federal Water Resources Plan Fund 4552	Other Funds	Total Governmental Funds (Memorandum Only)
\$ -	\$ -	\$ -	\$ 16,952,908
-	158,203	103,109	261,753
43,395	24,323	405,927	541,099
20,841	-	9,194	97,215
71,318	-	(77,384)	(54)
<u>135,554</u>	<u>182,526</u>	<u>440,846</u>	<u>17,852,921</u>
15,544	302,296	512,205	18,948,116
<u>15,544</u>	<u>302,296</u>	<u>512,205</u>	<u>18,948,116</u>
120,010	(119,770)	(71,359)	(1,095,195)
2,937	-	-	130,759
-	-	-	(69,019)
-	-	-	(150)
-	-	16,811	16,811
-	-	-	1,011,055
-	-	-	1,000,000
<u>2,937</u>	<u>-</u>	<u>16,811</u>	<u>2,089,456</u>
122,947	(119,770)	(54,548)	994,261
<u>312,437</u>	<u>421,884</u>	<u>312,437</u>	<u>1,649,703</u>
<u>\$ 435,384</u>	<u>\$ 302,114</u>	<u>\$ 257,889</u>	<u>\$ 2,643,964</u>

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

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

A. Reporting Entity

The Nebraska Department of Natural Resources (Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (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 Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Department of Natural Resources. No component units were identified. The Nebraska Department of Natural Resources is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Department, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Department. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Department reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Department reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Fund Financial Statements. The fund financial statements provide information about the Department's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Department uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

General Fund. This is the Department's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Small Watersheds Flood Control Fund. Nebraska Accounting System (NAS) Fund 2551 is used to allocate to local organizations such sums as in the judgement of the Commission to acquire real property or easements needed to permit the local organizations to install upstream flood control or watershed protection and flood prevention structures on rivers, tributaries, streams, or watersheds. When any property or easement has been acquired by the use of these funds and the property is sold or leased, it shall be the duty of the local organization to remit to the Department a pro rata share of the proceeds equal to the percentage of State funds involved.

Natural Resources Water Quality Fund. NAS Fund 2554 is allocated to natural resources districts for programs related to water quality. The source of funding is established by the Pesticide Act.

Department of Natural Resources Cash Fund. NAS Fund 2660 is used for the fees collected by the Department and to pay costs of the programs or activities.

Federal Water Resources Plan Fund. NAS Fund 4452 accounts for federal monies received for flood plain mapping and flood mitigation projects.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Department are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP), which requires the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting 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 imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except the Federal Water Resources Plan and Dam Safety federal funds, were designated for investment during fiscal year 2002.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to 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.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Department's policy to use unrestricted resources first, then restricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Department is reporting restricted net assets for federally funded flood plain mapping and flood mitigation projects.

E. Fund Balance Reservations

Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage in the amount of \$2,757 and performance bonds of \$150.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State agencies have the option to purchase building contents and inland marine coverage.

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

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Natural Resource's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Department and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **State Employees Retirement Plan (Plan) (Concluded)**

years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$151,152 and the Department contributed \$235,797.

5. **Distributive Activity**

Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department, which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

The Department's Distributive Activity for the audit period consists of performance bonds.

6. **Transfers**

Neb. Rev. Stat. Section 2-2627 R.S.Supp., 2002 required the State Treasurer to transfer one million dollars from the Pesticide Administrative Cash Fund (Department of Agriculture) to the Natural Resources Water Quality Fund. The transfer was to replace the fertilizer fee that ended December 31, 2000.

7. **Adjustments to Fund Balance**

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a receipt or disbursement account.

8. **Deposits to Common Fund**

The Natural Resources Water Quality Fund receives a portion of the registration fee charged for pesticides that are not classified as a specialty pesticide per Neb. Rev. Stat. Section 2-2634 R.S.Supp., 2002. The fund also receives the commercial applicator license fee collected per Neb. Rev. Stat. Section 2-2638 R.S.Supp., 2002 and the private applicator license fee collected per Neb. Rev. Stat. Section 2-2641 R.S.Supp., 2002. The fees are collected and deposited by the Department of Agriculture.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. GASB 34

In June 1999, the Governmental Accounting Standards Department (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Department implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Department's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Department were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Department.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SUPPLEMENTARY INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
303 - Small Watersheds Flood Control	\$ 96,000	\$ 96,000	\$ 96,000	\$ -
304 - Nebraska Water Conservation	5,304,475	5,304,475	3,762,668	1,541,807
307 - Nebraska Resources Development	7,887,088	7,887,088	2,265,054	5,622,034
308 - Soil Survey	160,698	160,698	137,553	23,145
309 - Natural Resources Enhancement	240,000	240,000	235,000	5,000
331 - Nebraska Water Rights	8,460,946	8,460,946	4,717,353	3,743,593
334 - Soil and Water Conservation	6,174,081	6,174,081	5,739,280	434,801
TOTAL DISBURSEMENTS	<u>\$ 28,323,288</u>	<u>\$ 28,323,288</u>	<u>\$ 16,952,908</u>	<u>\$ 11,370,380</u>

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

Small Watersheds Flood Control Fund 2551				
BUDGETED AMOUNTS				VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
ORIGINAL	FINAL	ACTUAL AMOUNTS		
PROGRAM:				
303 - Small Watershed Flood Control	\$ 500,000	\$ 500,000	\$ 150,163	\$ 349,837
TOTAL DISBURSEMENTS	\$ 500,000	\$ 500,000	\$ 150,163	\$ 349,837

Natural Resources Water Quality Fund 2554				
BUDGETED AMOUNTS				VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
ORIGINAL	FINAL	ACTUAL AMOUNTS		
PROGRAM:				
309 - Natural Resources Enhancement	\$ 1,970,608	\$ 1,970,608	\$ 1,015,000	\$ 955,608
TOTAL DISBURSEMENTS	\$ 1,970,608	\$ 1,970,608	\$ 1,015,000	\$ 955,608

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Department's legally adopted annual budget amount. The Department's budgetary comparison schedules include the General Fund, the Small Watersheds Flood Control Fund, and the Natural Resources Water Quality Fund. A budgetary comparison could not be shown for the Department of Natural Resources Cash Fund and the Federal Water Resources Plan Fund because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

GAAP also requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

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

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedules only report total disbursements *by program*.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

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

All State budgetary disbursements for the general fund, and the Department's Small Watersheds Flood Fund, Natural Resources Water Quality Fund, Department of Natural Resources Cash Fund, and Federal Water Resources Plan Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from the Department's Federal Water Resources Plan Fund may be increased to the extent receipts of the fund exceed the original budget estimate.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

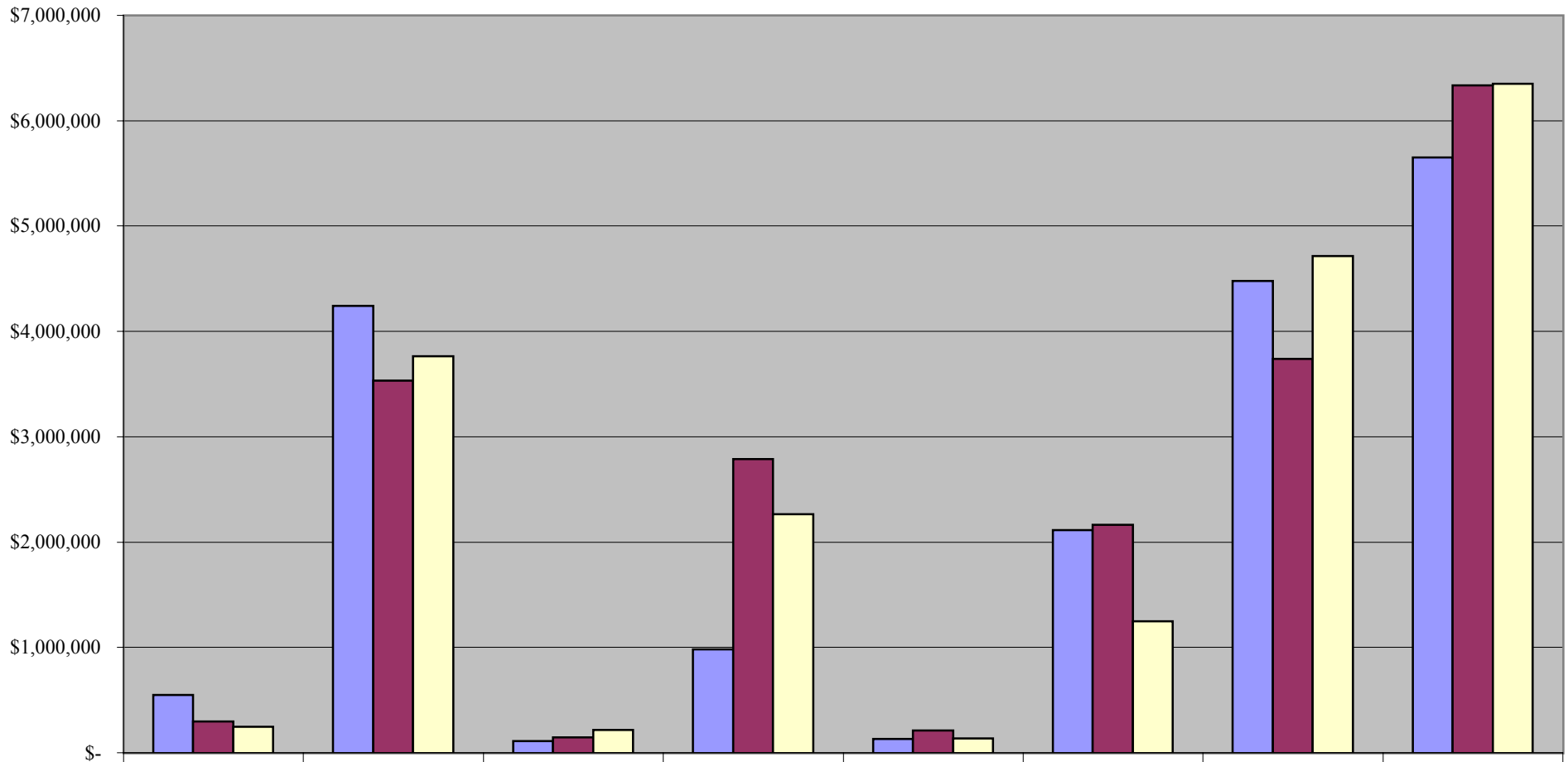
NEBRASKA DEPARTMENT OF NATURAL RESOURCES
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2002

	Special Revenue					Total Nonmajor Governmental Funds
	Nebraska Resources Development Fund 2552	Nebraska Soil & Water Conservation Fund 2553	Water Well Decommissioning Fund 2555	Carbon Sequestration Assessment Cash Fund 2556	Dam Safety Fund 4291	
Assets						
Cash in State Treasury	\$ 89,152	\$ 8,950	\$ 52,402	\$ 298	\$ 107,087	\$ 257,889
Total Assets	<u>\$ 89,152</u>	<u>\$ 8,950</u>	<u>\$ 52,402</u>	<u>\$ 298</u>	<u>\$ 107,087</u>	<u>\$ 257,889</u>
Fund Balances						
Unreserved, Reported in Nonmajor Special Revenue Funds	\$ 89,152	\$ 8,950	\$ 52,402	\$ 298	\$ 107,087	\$ 257,889
Total Fund Balances	<u>\$ 89,152</u>	<u>\$ 8,950</u>	<u>\$ 52,402</u>	<u>\$ 298</u>	<u>\$ 107,087</u>	<u>\$ 257,889</u>

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds				Special Revenue Funds		Total Nonmajor Governmental Funds
	Nebraska Resources Development Fund 2552	Nebraska Soil & Water Conservation Fund 2553	Water Well Decommissioning Fund 2555	Carbon Sequestration Assessment Cash Fund 2556	Water Resources Cash Fund 2687	Dam Safety Fund 4291	
RECEIPTS:							
Federal Grants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,109	\$ 103,109
Sales & Charges	16,811	-	185,020	204,096	-	-	405,927
Miscellaneous:							
Investment Interest	3,353	218	5,240	383	-	-	9,194
Other Miscellaneous	(13,281)	6,345	(30)	-	(71,317)	899	(77,384)
TOTAL RECEIPTS	6,883	6,563	190,230	204,479	(71,317)	104,008	440,846
DISBURSEMENTS BY FUNCTION:							
Conservation of Natural Resources	-	-	216,716	205,078	-	90,411	512,205
TOTAL DISBURSEMENTS	-	-	216,716	205,078	-	90,411	512,205
Excess (Deficiency) of Receipts Over (Under) Disbursements	6,883	6,563	(26,486)	(599)	(71,317)	13,597	(71,359)
OTHER FINANCING SOURCES (USES):							
Adjustments to Fund Balance	16,811	-	-	-	-	-	16,811
TOTAL OTHER FINANCING SOURCES (USES)	16,811	-	-	-	-	-	16,811
Net Change in Fund Balances	23,694	6,563	(26,486)	(599)	(71,317)	13,597	(54,548)
FUND BALANCES, JULY 1, 2001	65,458	2,387	78,888	897	71,317	93,490	312,437
FUND BALANCES, JUNE 30, 2002	\$ 89,152	\$ 8,950	\$ 52,402	\$ 298	\$ -	\$ 107,087	\$ 257,889

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF DISBURSEMENTS BY PROGRAM
 Fiscal Years 2000 and 2002 - Audited
 Fiscal Year 2001 - Unaudited



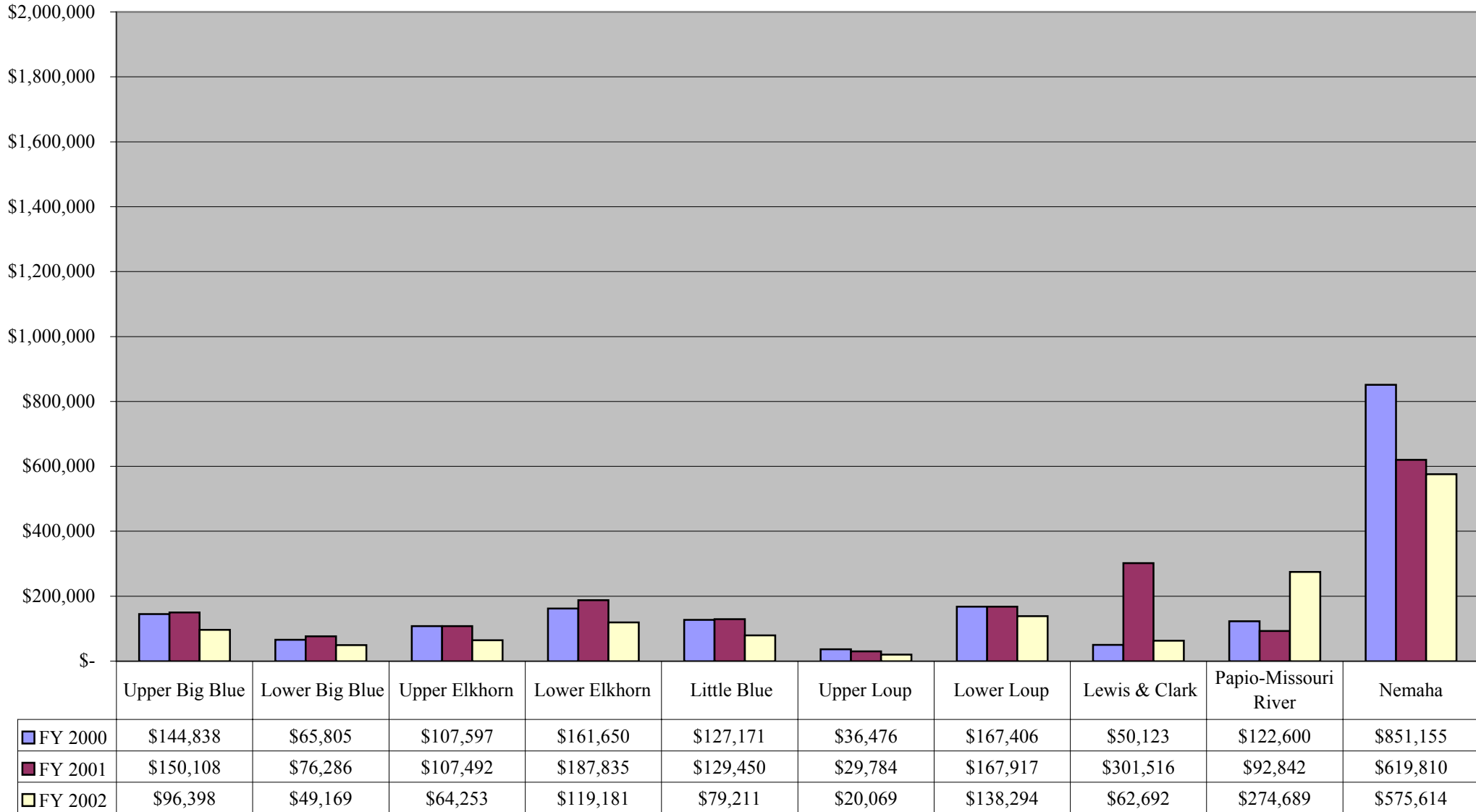
	Small Watersheds Flood Control	Water Conservation	Water Well Decommissioning	Resources Development	Soil Survey	Natural Resources Enhancement	Nebraska Water Rights	Soil and Water Conservation
Fiscal Year 2000	\$547,715	\$4,242,555	\$109,517	\$982,140	\$130,202	\$2,113,000	\$4,477,601	\$5,648,890
Fiscal Year 2001	\$295,565	\$3,533,508	\$144,127	\$2,790,112	\$209,421	\$2,166,392	\$3,740,425	\$6,333,545
Fiscal Year 2002	\$246,163	\$3,762,668	\$216,716	\$2,265,053	\$137,553	\$1,250,000	\$4,717,353	\$6,352,610

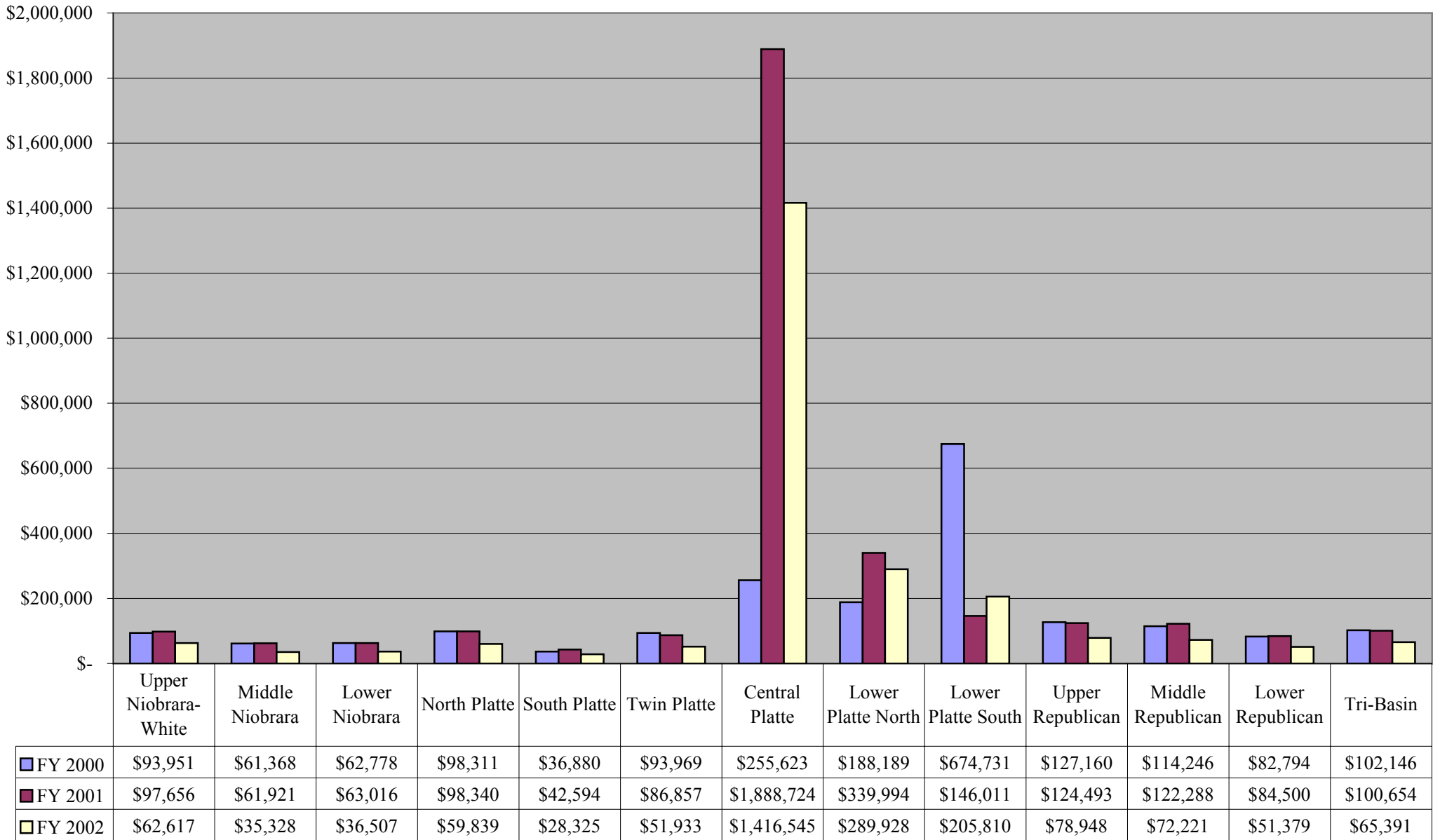
Note: In Fiscal Year 2002 three programs were eliminated and combined with the Soil and Water Conservation program. Instead of showing these programs for Fiscal Years 2000 and 2001, we combined the data into this program for those fiscal years also.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF DIRECT AID PAYMENTS TO NATURAL RESOURCES DISTRICTS

Fiscal Years (FY) 2000 and 2002 - Audited

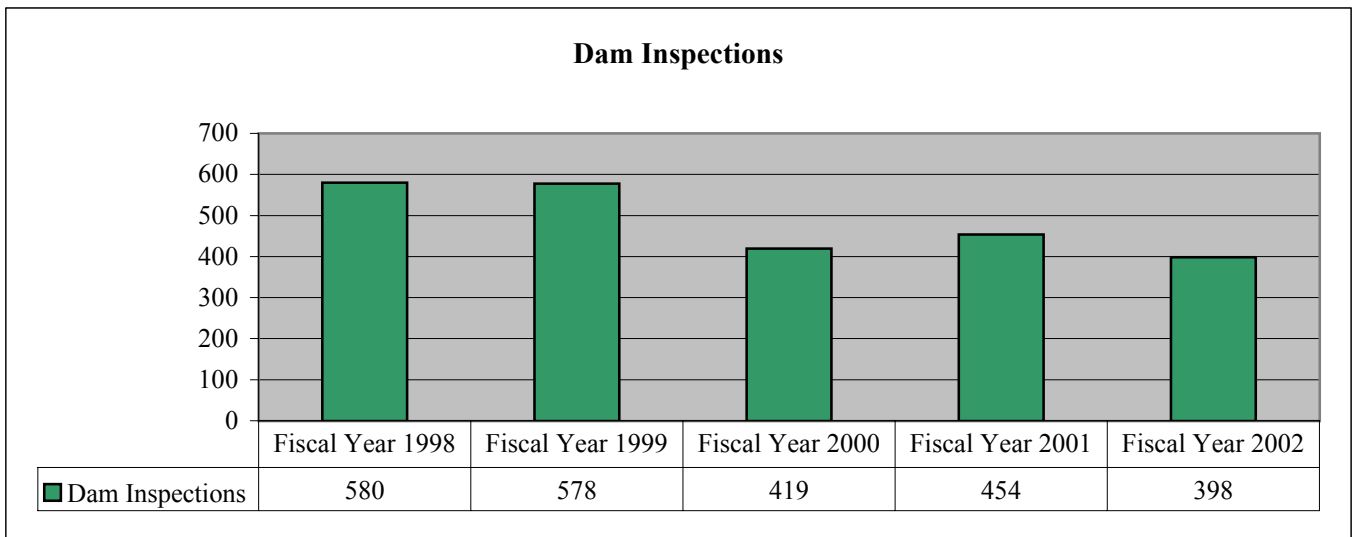
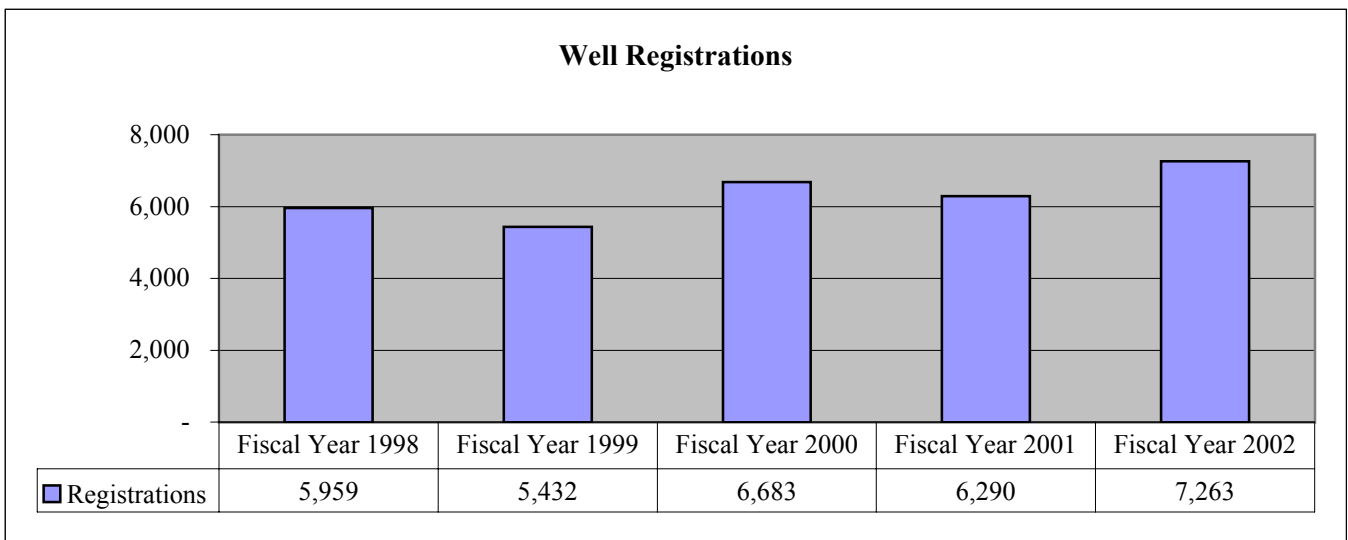
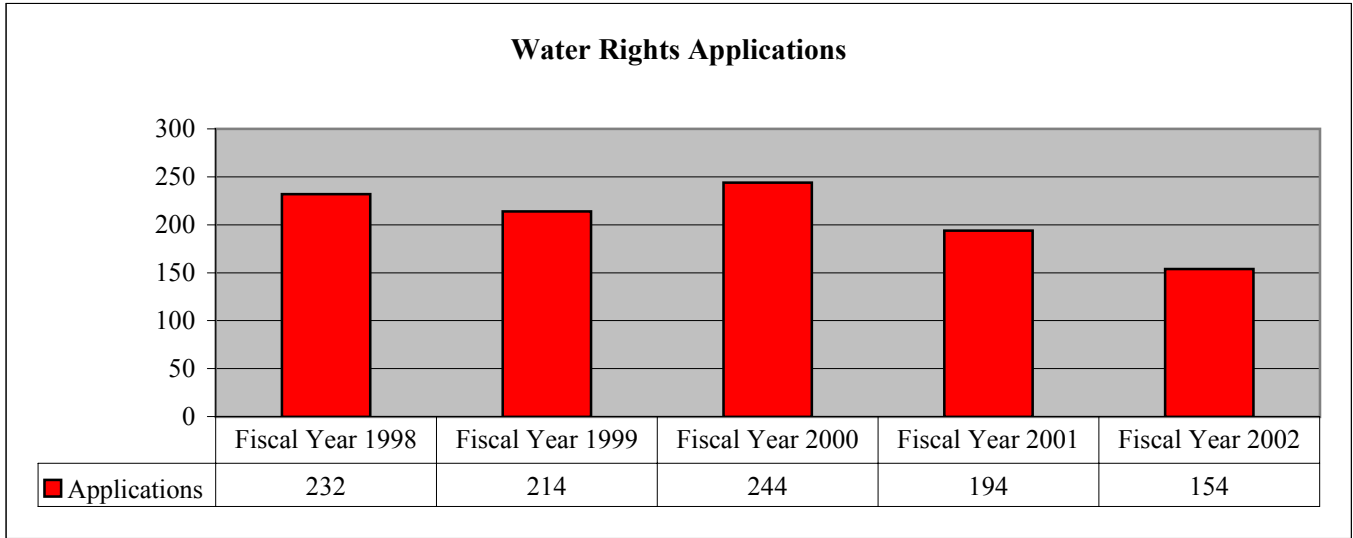
Fiscal Year 2001 - Unaudited





NOTE: Does not include payments to landowners for the Water Conservation Program.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
**SCHEDULE OF WATER RIGHTS APPLICATIONS, WELL REGISTRATIONS,
 AND DAM INSPECTIONS**
 Fiscal Years 1998, 1999, 2000, 2001, 2002
 UNAUDITED



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

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We have audited the financial statements of the Nebraska Department of Natural Resources as of and for the year ended June 30, 2002, and have issued our report thereon dated May 8, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Natural Resources. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Natural Resource's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted a certain immaterial instance of noncompliance that we have reported to the management of the Nebraska Department of Natural Resources in the Comments Section of this report as Comment Number Comment Number 4 (Expense Reimbursements).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Natural Resource's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Nebraska Department of Natural Resources in the Comments Section of this report as Comment Number 1 (Natural Resources Water Quality Fund Expenditures) and Comment Number 3 (Procedures Over Capital Assets).

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

Handwritten signature of Timothy J. Chamber CPA in black ink.

Assistant Deputy Auditor

May 8, 2003