

**AUDIT REPORT
OF THE
NEBRASKA BOARD OF
EDUCATIONAL LANDS AND FUNDS
JULY 1, 2001 THROUGH JUNE 30, 2002**

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Comments Section	
Summary of Comments	2
Comment Without Recommendation	3 - 5
Comments and Recommendations	5 - 11
Financial Section	
Independent Auditors' Report	12 - 13
Management's Discussion and Analysis	14 - 17
Basic Financial Statements:	
Agency-wide Financial Statements:	
Statement of Net Assets Arising from Cash Transactions	18
Statement of Activities - Cash Basis	19
Fund Financial Statements:	
Statement of Assets and Fund Balances Arising from Cash Transactions - Governmental Funds	20
Statement of Receipts, Disbursements, and Changes in Fund Balances - Governmental Funds	21
Notes to Financial Statements	22 - 29
Supplementary Information:	
Budgetary Comparison Schedule of Disbursements by Program - Budget and Actual - General Fund	30
Budgetary Comparison Schedule of Disbursements by Program - Budget and Actual - BELF Cash Fund 2322	31
Notes to Supplementary Information	32 - 33
Combining Fund Statements and Schedules:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions - Nonmajor Governmental Funds	34
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances - Nonmajor Governmental Funds	35
Schedules:	
Map of K-12 School Trust Lands	36
Schedule of Land Revenues and Costs	37
Schedule of Land Sales	38
Survey Division Statistics	39
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40 - 41

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

BACKGROUND

When Nebraska became a state in 1867, it received land in each township from the federal government for the support of public schools. In 1936, the duties of the Commissioner of Public Lands and Buildings, which included overseeing the school lands, were transferred to the Board of Educational Lands and Funds. The Board consists of five persons appointed by the Governor, one of whom must be competent in the field of investments.

The Board acts as trustee and manager of nearly 1.43 million acres of school land. The income received from surface and subsurface leasing of this land is distributed to school districts. The income is also used to meet the cost of managing the land. Mineral royalties are deposited in the Permanent School Fund.

The agency also houses the office of the State Surveyor. The State Surveyor provides support services to the Board in the area of mapping and analysis of areas and settles surveying disputes between Nebraska landowners and surveyors. The State Surveyor also keeps a repository of land surveys done in the State.

MISSION STATEMENT

The Board of Educational Lands and Funds is now the constitutionally established Trustee of Nebraska's School Trust Lands. The Board is governed entirely by trust law and its Trustee members are legally bound to fulfill exclusively the Trust duties of maximizing the income and preserving the assets of the School Trust for the benefit of the State and its citizens.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

SUMMARY OF COMMENTS

During our audit of the Nebraska Board of Educational Lands and Funds, 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. **Land Sales:** The Board is directed by Neb. Rev. Stat. Section 72-201.01(1) to sell enough educational lands by January 1, 2008, to result in 25% of the value of the school trust permanent portfolio being invested as real property. As of June 30, 2002, 60.61% of the value of the school trust permanent portfolio was still invested as real property.
2. **Cash Fund Balance:** The Board had a cash fund balance of \$936,081 at June 30, 2001, and \$3,373,198 at June 30, 2002, that was not transferred to the Temporary School Fund. The Board transferred only \$400,000 in December 2001, and \$750,000 in December 2002.
3. **Employee Vacation Leave:** Three employees were allowed to carry over vacation leave from year to year of 298, 431, and 444 hours.
4. **Travel Expenses:** One meal log tested was not adequate because it did not provide the city. Some reimbursed meals appeared to be based on per diem amounts rather than actual amounts, and meals were reimbursed in amounts exceeding federal guidelines.
5. **Leases:** We noted a lease of 4,069 acres and a lease of 7,786 acres that exceeded the 640 acre statutory limit.

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 Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENT WITHOUT RECOMMENDATION

1. Land Sales

Nebr. Rev. Stat. Section 72-201.01 R.R.S. 1996 says, "The Board of Educational Lands and Funds shall prepare a plan for the sale of educational lands over which the board has general management and control on July 19, 1996. The plan shall be submitted to the Education Committee of the Legislature on or before December 1, 1996. The plan shall provide for the sale of enough of the total of the educational lands by January 1, 2008, to result in one-fourth of the value of the school trust permanent portfolio being invested by the board in real property located with the State of Nebraska and the remaining three-fourths of the value of the school trust permanent portfolio being invested by the state investment officer. The plan shall be implemented beginning on July 1, 1997. In no case shall the plan or any part of it be executed if such execution violates the fiduciary duties of the board."

Two new laws have been passed since 1996 that have affected the Board's ability to sell additional land. First, Neb. Rev. Stat. Section 77-202.11(1) R.S.Supp., 2002 states, "Leased public property, other than property leased for a public purpose as set forth in subdivision (1)(a) of section 77-202, shall be taxed or exempted from taxation as if the property was owned by the leaseholder." This change in statute changed the status of the school lands from governmental property paying in lieu of taxes to leased public property subject to property taxes. This law was originally effective January 2, 2000, and was amended, operative January 1, 2001 by 2000 Neb. Laws LB 968.

Second, Neb. Rev. Stat. Section 72-258.03 R.S.Supp., 2002 states, "For purposes of sales of educational lands at public auction, appraised value is the adjusted value as determined by the Property Tax Administrator or his or her representative." Neb. Rev. Stat. Section 72-258 R.S.Supp., 2002 states "Educational land shall be offered for sale at public auction by a representative of the Board of Educational Lands and Funds and sold at not less than the appraised value to the highest bidder."

Our review of the Board's land sales indicated 183 parcels of land had been sold from July 1, 1997 through June 30, 2000. No land was sold during fiscal year 2001. According to the Board, this is the result of the passage of Section 72-258, making the minimum bid on the sale of school land the adjusted value as determined by the Property Tax Administrator. Since Section 77-202.11 was not effective until January 2001, county assessors had not established assessed values for the school lands. The Board requested the Property Tax Administrator furnish the adjusted value for some 1,500 parcels covering 684,000 acres, but those values were not received until after June 30, 2001.

An additional 70 parcels of land were sold in fiscal year 2002. The following table shows the land sales and the value of the school trust permanent portfolio for each year since 1996. Since there are no statutory requirements that a specific amount of land be sold in any particular year, we make no recommendations at this time.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENT WITHOUT RECOMMENDATION

Land Sales (Continued)

	Fiscal Year Ended						
	June 30, 1996	June 30, 1997	June 30, 1998	June 30, 1999	June 30, 2000	June 30, 2001	June 30, 2002
Total K-12 Acres Leased	1,509,041	1,509,044	1,493,166	1,467,064	1,444,738	1,444,835	1,428,729
Total K-12 Acres Sold	-	103	23,213	18,951	22,421	-	33,215
Total K-12 Parcels Sold	-	4	57	49	73	-	70
Total Sale Price	\$ -	\$ 1,105,900	\$ 4,865,585	\$ 4,932,950	\$ 4,908,660	\$ -	\$ 7,143,000
Assets:							
K-12 School Trust Land (1)	\$ 338,331,042	\$ 361,499,958	\$ 389,344,811	\$ 370,177,386	\$ 380,369,560	\$ 391,997,410	\$ 403,589,246
Stocks and Bonds	\$ 176,104,523	\$ 212,326,603	\$ 249,218,886	\$ 284,295,092	\$ 300,058,354	\$ 279,659,671	\$ 262,253,942
Total Assets	\$ 514,435,565	\$ 573,826,561	\$ 638,563,697	\$ 654,472,478	\$ 680,427,914	\$ 671,657,081	\$ 665,843,188
Percentage School Land is of Total Assets	65.77%	63.00%	60.97%	56.56%	55.90%	58.36%	60.61%

(1) Approximate market value as determined using valuation data of the University of Nebraska, Department of Agricultural Economics.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENT WITHOUT RECOMMENDATION

1. Land Sales (Concluded)

Board's Response: For the reasons accurately summarized above, there were no land sales during calendar years 2000 or 2001 (half of FY 2000, all of FY 2001, and half of FY 2002). The number and value of the parcels sold since July 1, 1997, would have been much greater if two full calendar years had not been lost awaiting the statutorily required minimum sale prices.

The factored adjusted values required by Section 72-258.03 were furnished by the Property Tax Administrator in December of 2001 and land sales resumed in February of 2002 (with advertising in January of 2002). The 70 parcels mentioned above were all sold in the last 5 months of FY 2002 (February through June of 2002). The number and value of parcels sold since the statutorily required minimum sale prices were received in December of 2001 would have been greater if Nebraska's agricultural economy had not suffered a devastating drought.

COMMENTS AND RECOMMENDATIONS

2. Cash Fund Balance

Neb. Rev. Stat. Section 79-1035.02 R.S.Supp., 2002 states, "The temporary school fund is the holding fund to which the interest, dividends, and any other income from the permanent school fund, *the net income from the school lands*, and the money from all other sources required or provided by law are credited as described in Article VII, Section 9, of the Constitution of Nebraska. *The entire balance of the temporary school fund*, including all interest and any other income therefrom, *shall be exclusively used for the support and maintenance of the common schools in each public school district in the State* as the Legislature provides, in accordance with Article VII, Section 9, of the Constitution of Nebraska, and shall be distributed to each public school district annually." (Emphasis added) Neb. Rev. Stat. Section 72-232.02 R.R.S. 1996 states, "The Board of Educational Lands and Funds shall pay the costs of administering the unsold school lands out of receipts from school land income. A cash fund is hereby authorized and the State Treasurer shall, out of the receipts for school land income, deposit in such fund that amount appropriated by the Legislature for each fiscal year on the first day of each fiscal year."

The appropriation in the amount of \$7,515,300 per LB 543, Section 139 (2001) was transferred on July 7, 2001; however, the balance in the cash fund on June 30, 2001 was \$936,081. As a result, the cash fund balance was greater than the legislative approved appropriation. The Board transferred only \$400,000 to the Temporary School Fund on December 26, 2001. We also noted the appropriation for fiscal year 2003, per LB 543, Section 139 (2001) was transferred on July 1, 2002 in the amount of \$7,590,700. The cash fund had a balance of \$3,373,198 on June 30, 2002. Therefore, the cash fund balance at July 1, 2002, was more than \$3 million greater than the Board's budget and the legislative approved appropriation. Only \$750,000 of the cash fund balance was transferred by the Board to the Temporary School Fund on December 23, 2002.

If the balance of the BELF Cash Fund is not transferred to the Temporary School Fund at the end of the fiscal year, it cannot be distributed to the school districts and per State statute.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

2. Cash Fund Balance (Continued)

We recommend the Board implement procedures to ensure the balance of the cash fund is returned to the Temporary School Fund at the end of each fiscal year.

Board's Response: First, we note that the "missing" \$2.25 million (\$3 million less \$750,000) was used to pay the second half 2001 real estate taxes which were not due until after June 30, 2002. There is no discount for paying early, so we retain and earn interest on the funds for as long as possible.

The appropriations for these (and prior) years all state that "expenditures shall not be limited to the amount shown". Because Trust Funds are involved, any unused appropriation cannot lapse. Deposits in the Board's cash fund and the Temporary School Fund earn interest at the same rate. Therefore, the relative amounts in these two accounts are significant only as of December 31st of each calendar year when the State Treasurer "balances" the Temporary School Fund preparatory to distributions by the State Department of Education.

On page 5 of the last prior Audit Report of this Board (FY 1999-2000) dated March 14, 2001, audit staff reported our transfer of \$9.01 million from the cash fund to the Temporary School Fund on December 21, 1999, and continued:

"This transfer was the amount school land revenues exceeded the Board's costs of administering the unsold school lands. The Board has been accounting for land revenues and expenses in this matter for numerous years However, there does not appear to be any adverse affect on the common schools because the Board transfers all excess income to the temporary school fund, including interest earned, at the end of each calendar year. (Emphasis added.) This ensures the temporary school fund balance is at its maximum to allow for a maximum allocation to the schools."

Our Response noted that we would need to carefully review the December 31st cash balance requirements in future years because of "the tax/in lieu provisions of Section 77-202.11 (LB 271) in relationship to the annual distributions of net School Trust income." As we discussed with audit staff at that time, the difference is that taxes are paid by the Board rather than in lieu of tax payments being made by the State Department of Education. The following table summarizes the relevant amounts for the last three years:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
<i>Section 72-232.02</i>			
<i>Appropriation</i>	<i>\$2.55 Million</i>	<i>\$2.63 Million</i>	<i>\$7.52 Million</i>
<i>LB 880 & LB 543</i>			
<i>Board's Cash Account</i>			
<i>December 31 Balance</i>	<i>\$1.18 Million</i>	<i>\$2.03 Million</i>	<i>\$6.93 Million</i>
<i>Same Calendar Year</i>			

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

2. Cash Fund Balance (Concluded)

Board's Response, Concluded:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
<i>Real Estate Taxes Paid by the Board Next Calendar Year</i>	<i>None</i>	<i>None</i>	<i>\$4.62 Million</i>
<i>Temp. School Fund December 31 Balance Same Calendar Year</i>	<i>\$28.44 Million</i>	<i>\$30.63 Million</i>	<i>\$27.888 Million</i>
<i>Department of Education In Lieu of Tax Payments Next Calendar Year</i>	<i>\$4.36 Million</i>	<i>\$4.41 Million</i>	<i>\$4,165.43</i>
<i>Dept. of Education Per Pupil Distribution Next Calendar Year</i>	<i>\$24.08 Million</i>	<i>\$26.22 Million</i>	<i>\$27.884 Million</i>

We recognize that neither the appropriations pursuant to Section 72-232.02, nor their deposit into our cash fund by the State Treasurer, may be necessary due to the self-executing nature of Article VII, Section 9. That is, only the net income from the school lands (after all expenses) needs to be deposited into the Temporary School Fund in the first instance (Section 79-1035.02). Nevertheless, the LB 543 appropriation, up by \$4.9 million, evidences the clear desire and intention of the Legislature that we voluntarily pay the real estate taxes which are actually imposed on our tenants. We will honor that intent and desire, even in those years when the taxes exceed the additional amount appropriated for that purpose (expenditures being not limited to the amount shown).

Although the State Department of Education cannot distribute funds in our cash account, it must distribute the entire balance of the Temporary School Fund as of December 31st of each year. We cannot permit the Department to disburse in lieu of tax payments for property on which we will be paying taxes, nor can we permit the Department to distribute on a per pupil basis the dollars we will later use to make those tax payments. Therefore, the entire \$4.9 million appropriated for that purpose remained in our cash account as of December 31, 2001.

The in lieu of tax statutes were intentionally not repealed and “automatically” apply if taxes are not payable. This accounts for the \$4,165.43 in lieu of tax distribution by the Department of Education in February of 2002. If tax payments should become inapplicable in some future year, due to repeal or adverse judicial decision, we must and will have sufficient funds available for full in lieu of tax distributions, which may be more or less than the total taxes at that time.

This will also be the case in future years. For example, the LB 543 appropriation and Section 72-232.02 deposit were \$7.59 million in 2002 and our cash account balance on December 31, 2002, was \$6.98 million.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

3. Employee Vacation Leave

Board Rules and Regulations Title 97 Chapter 2-007.04D state, “The vacation leave account of each employee shall be balanced as of December 31 of each year. Each employee shall be entitled to have accumulated as of December 31 of each calendar year and carried forward into the next year such employee’s earned vacation leave totaling 280 hours (35 days), or such greater amount as is hereafter permitted to be so accumulated and carried over by employees of those State agencies which are subject to the Nebraska Classified System Personnel Rules or its equivalent, plus any additional amount authorized by past or future specific action of the Board with the concurrence of a majority of its members. Earned vacation leave of any employee in excess of the amount so permitted to be accumulated and carried over shall be forfeited and lost by such employee as of December 31 of each calendar year.”

We noted the following:

- One employee was allowed to carry over 298 hours of vacation time as of December 31, 2001. The excess carryover leave was approved by the Board “to be carried forward henceforth until such vacation time is used” at its December 17, 1999 Board meeting. However, the excess carryover amount was not approved by the Board in 2000, 2001, or 2002, and was not lapsed but allowed to continue from year to year.
- We also noted two employees who were allowed to carry over 431 hours and 444 hours as of December 31, 2001. These two employees’ excess carryover leave was originally approved by Board motions on May 9, 1986 and May 8, 1987 and were allowed to continue from year to year. The excess carryover was re-approved by the Board on December 17, 1999; however, the excess was not approved in 2000, 2001, or 2002, and was not forfeited and lost as of December 31 of those years.
- Employees of the Board may be subject to State Personnel Rules and Regulations which require excess carryover leave to be used within the next six months. Neb. Rev. Stat. Section 81-1328 R.R.S. 1999, requires that vacation leave be accumulated and balanced at the end of each calendar year. It also states, “The Director of Personnel shall adopt and promulgate such rules and regulations as are necessary to administer this section.” Under Title 273 NAC 9-004.02, excess carryover leave may be approved by the Agency Head, but shall be used within the next six months and in no case shall approved carryover leave continue from year to year. Neb. Rev. Stat. Section 81-1316(1) R.S.Supp., 2002 exempts the Board of Educational Lands and Funds from Neb. Rev. Stat. Sections 81-1301 to 81-1319. It appears the Board is not exempt from the requirements of Section 81-1328 and the Rules and Regulations promulgated pursuant to that Section.

Failure to comply with rules and regulations increases the liability of the Temporary School Fund. For example, the excess hours of the Deputy Director, who had an annual salary of \$53,232 in 1986, would have resulted in a liability of \$2,902 at December 1986. At December 2001, his salary had increased to \$89,000. Therefore, the liability for his excess hours (over 280) increased to \$6,461 at December 31, 2001.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

3. **Employee Vacation Leave** (Concluded)

We recommend the Board comply with all statutes and rules and regulations. Excess leave should be approved by the Board each year, and any amounts not approved each year should be forfeited at December 31. In addition, we recommend the Board review the statutes noted above with the Attorney General.

Board's Response: We agree with most of these recommendations, which we addressed long ago. However, we disagree with portions of the narrative and the notion that we need to repeat ourselves each year.

Section 81-1316 provides that all employees of the Governor and other Constitutional Officers, Legislature, Court System, State Department of Education, University of Nebraska, State Colleges and other Constitutionally created entities (including this Board) are not covered by Sections 81-1301 to 81-1319 and are not subject to the State Personnel System.

Nearly 30 years ago, when Section 81-1316 did not specifically exempt this Board, the Attorney General held (in Opinion No. 186 which became official November 15, 1974) that the State Personnel Act is not applicable to this Board. The last paragraph stated (in its entirety): "It is therefore our opinion that the Legislature cannot provide that the Board of Educational Lands and Funds may in any way be under the direction of the Department of Personnel, or any other department, and that the Personnel Act is not applicable to the Board of Educational Lands and Funds." (Emphasis added.)

In accordance with the above-quoted portion of its Rules and Regulations, and with the concurrence of (more than) a majority of its members, the Board has authorized three of its employees to carry forward earned, but unused, vacation leave totaling more than 280 hours "until such vacation time is used." Therefore, no further Board action is necessary.

In authorizing our employees to carry over 280 hours (or more) of earned but unused vacation, we are aware that accrued leave time may be paid for under some circumstances. Obviously, the "liability" for every one of these hours for each employee may increase on an unadjusted basis over time as compensation levels rise (so an hour paid for 15 years from now may involve more dollars than if paid for today). However, we also understand that the cost in real dollars (adjusted for the years involved) increases only if compensation rises faster than the rate of inflation. The example used shows that this was not the case.

Auditors' Response: We agree the Board is exempt from Neb. Rev. Stat. Sections 81-1301 to 81-1319, as expressly stated in Section 81-1316. However, it does not appear the Board is exempt from Section 81-1328 or the Rules and Regulations authorized by that section. Section 81-1328 prescribes the vacation leave benefits of State employees, and defines a "state employee" as "any person or officer employed by the state including the head of any department or agency, except when such a head is a board or commission, and who works a full-time or part-time schedule on an ongoing basis."

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses

The Nebraska Accounting System (NAS) Manual Concept 5, Section 6 states, “employees traveling on State business shall claim actual amounts paid for meals. Employees should not submit claims based upon per diem amounts . . . Agencies are responsible to see that all submitted claims for meals are adequately substantiated. Unsubstantiated meals should not be reimbursed . . . agencies, at their discretion, may require receipts where claims are questionable or excessive.” Good internal control suggests the Board should have policies in place to require adequate documentation, such as detailed receipts, whenever an expense does not appear reasonable. The federal government has established per diem rates as a reasonable guideline for meals and lodging. Additionally, NAS Manual Concept 5, Section 5 states, “Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for **each** expense or meal/food cost.”

We noted the following related to five expense reimbursements tested:

- One meal log tested was not adequate because it did not provide the city.
- Some meals appeared to be based on per diem amounts and notes were written on three logs to request “estimated” amounts be provided.
- Two of five reimbursements tested were not reasonable and included meal expenses exceeding the federal per diem rates. None of these meals had detailed receipts attached to substantiate the meal amount reimbursed.
- One individual was reimbursed \$40 for March 11, 2002 and \$50 for March 12, 2002 for meals when traveling in Grand Junction, Colorado. The federal per diem rate for meals in Grand Junction was \$34. A meal log was included, but it did not indicate a location for each meal and there were no detailed receipts to substantiate any meal amounts.
- A second individual was reimbursed \$48 for January 7, 2002 and \$43 for one meal on January 10 while traveling in Phoenix, Arizona. The federal per diem rate for meals in Phoenix was \$42. A meal log was included but there were no detailed receipts to substantiate any meal amounts.

Without adequate documentation pertaining to the reimbursement of meal expenses, the Board is not able to determine if requests for meal reimbursements are reasonable and allowable.

We recommend the Board implement procedures to comply with State policies including requiring the city be included on meal logs, actual meal amounts be reported, and detailed receipts to substantiate meals exceeding guidelines.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

4. **Travel Expenses** (Concluded)

Board's Response: Generally, the majority of these meal expenses, and the most expensive individual meals, were charged to the rooms and included in the lodging bills. Nevertheless, the daily guidelines were exceeded without each meal included in the daily total being adequately documented. We certainly agree that adequate substantiation of actual meal expenditures is necessary.

5. **Leases**

Neb. Rev. Stat. Section 72-232 R.S.Supp., 2002 states, "No individual, partnership, limited liability company, or corporation shall be entitled to hold under lease a total of more than six hundred forty acres of state educational lands, whether acquired by direct lease or by assignment. Such limitation shall not apply when the land to be leased is bounded entirely on one side thereof by lands owned or operated by such applicant or assignee."

During our review of Board minutes, we noted two leases in Cherry County which exceeded 640 acres and one side of the land was not bounded entirely by the applicant. The leases were 4,069 acres and 7,786 acres. The Deputy Director of the Board indicated that due to the location of the land, the leases were offered in the manner which would maximize rental revenue.

We recommend the Board comply with State Statute or pursue legislative changes to reflect current practice.

Board's Response: There are only a few large parcels of this kind which must be leased as single units because they have only one access point. As audit staff was informed, there are also a great many "long" sections which contain more than 640 acres. It is possible that any of these may not be bounded entirely on one side by a single owner.

With respect to all these examples, anyone could bid on a lease for some of the acres, then another covering more, and so on until the entire parcel was rented. Therefore, we do not believe the Legislature intended that a contiguous parcel of more than 640 acres must be divided into multiple leases, or that this statute should be so construed. Instead, we prefer the interpretation that, if rented from the Board, the adjoining "operated" land can be included within the same lease.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

Also, as discussed in Note 1, the financial statements of the Nebraska Board of Educational Lands and Funds, 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 Board of Educational Lands and Funds. 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 Board of Educational Lands and Funds, 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 February 4, 2003, on our consideration of the Nebraska Board of Educational Lands and Funds' 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 Board'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 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 schedules, 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.

February 4, 2003

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Board of Educational Lands and Funds' financial report presents a narrative overview and analysis of the financial activities of the Nebraska Board of Educational Lands and Funds for the fiscal year ended June 30, 2002. Please read it in conjunction with the Board'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 Board of Educational Lands and Funds' basic financial statements. The Board'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 Board's overall financial status. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The Board'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 Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. Agency-wide financial statements divide the Board into three kinds of activities:

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

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

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

Fund Financial Statements. Fund financial statements focus on the individual parts of the Board, reporting the Board's operations in more detail than the agency-wide statements by providing information about the Board'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 Board currently has no proprietary funds.

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 statistical schedules. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Board of Educational Lands and Funds' 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 BOARD AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Board (current assets resulting from cash basis transactions) increased 247 percent.

	<u>Governmental Activities</u>		
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Unrestricted	\$ 3,650,324	\$ 1,052,776	247%
Total Net Assets	<u>\$ 3,650,324</u>	<u>\$ 1,052,776</u>	<u>247%</u>

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The fiscal year ended June 30, 2002, was the first year the State Treasurer transferred the suggested appropriation amount from the Temporary School Fund 6136 to the BELF Cash Fund 2322 on July 1, 2001. This amount was \$5 million higher than the previous year's budget due to LB 271 making sovereign property taxable. Real estate taxes were estimated for the tax year 2001 to be \$5 million; however, only one-half of the real estate taxes were due during the fiscal year ended June 30, 2002 (by April 1, 2002.) Prior to the Treasurer transferring the entire appropriation into the BELF Cash Fund 2322, deposits were made only on an as needed basis into the BELF Cash Fund 2322 to cover expenses, so that excess funds were not held in this fund, as they are now with the entire balance transferred on July 1.

Governmental Activities

Receipts for the Board's governmental activities decreased 4 percent, while expenses increased 95 percent.

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2002</u>	<u>2001</u>	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 21,387,162	\$ 22,389,646	-4%
General Receipts:			
Appropriations	395,754	395,419	0%
Interest	341,628	171,260	99%
Total Receipts	<u>22,124,544</u>	<u>22,956,325</u>	<u>-4%</u>
DISBURSEMENTS:			
General Government	418,558	415,314	1%
Education	5,131,787	2,426,786	111%
Total Disbursements	<u>5,550,345</u>	<u>2,842,100</u>	<u>95%</u>
Excess (Deficiency) before Other Financing Sources and Uses	16,574,199	20,114,225	-18%
OTHER FINANCING SOURCES & USES	<u>(13,976,651)</u>	<u>(26,460,823)</u>	<u>47%</u>
Increase (Decrease) in Net Assets	2,597,548	(6,346,598)	141%
Beginning Net Assets July 1	<u>1,052,776</u>	<u>7,399,374</u>	<u>-86%</u>
Ending Net Assets June 30	<u>\$ 3,650,324</u>	<u>\$ 1,052,776</u>	<u>247%</u>

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The fiscal year ended June 30, 2002 was the first year real estate taxes were paid for School Trust Lands. Taxes paid during the fiscal year ended June 30, 2002 were \$2,356,084. In addition, a grasshopper infestation occurred in central Nebraska which required immediate action to protect the Trust assets. Expenses increased due to the grasshopper spraying.

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the Nebraska Board of Educational Lands and Funds uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The BELF Cash Fund 2322 experienced noteworthy changes from the prior year as noted above due to transfers, taxes, and grasshopper spraying.

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 Board of Educational Lands and Funds.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 3,648,720
Deposit with Vendors	1,604
Total Assets	\$ 3,650,324
 Net Assets	
Unrestricted	\$ 3,650,324
Total Net Assets	\$ 3,650,324

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATEMENT OF ACTIVITIES - CASH BASIS
June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)	<u>FUNCTION</u>	
		<u>General Government</u>	<u>Education</u>
Disbursements:			
Personal Services	\$ 1,751,898	\$ 366,425	\$ 1,385,473
Operating	3,213,772	49,530	3,164,242
Travel	36,470	2,544	33,926
Capital Asset Purchases	548,205	59	548,146
Total Disbursements	<u>5,550,345</u>	<u>418,558</u>	<u>5,131,787</u>
Program Receipts:			
Charges for Services	21,387,162	79,513	21,307,649
Net Program Receipts (Disbursements)	<u>15,836,817</u>	<u>(339,045)</u>	<u>16,175,862</u>
General Receipts and Other Financing Sources & Uses:			
Appropriations	395,754		
Unrestricted Interest	341,628		
Other Financing Sources & Uses	<u>(13,976,651)</u>		
Total General Receipts, and Other Financing Sources & Uses	<u>(13,239,269)</u>		
Change in Net Assets	2,597,548		
Net Assets July 1, 2001	<u>1,052,776</u>		
Net Assets June 30, 2002	<u><u>\$ 3,650,324</u></u>		

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
 June 30, 2002

	Major Funds		Other Funds	Total
	State General Fund 1000	BELF Cash Fund 2322	Total Nonmajor Governmental Funds	Governmental Funds (Memorandum Only)
Assets				
Cash in State Treasury	\$ -	\$ 3,371,735	\$ 276,985	\$ 3,648,720
Deposit with Vendors	40	1,463	101	1,604
Total Assets	\$ 40	\$ 3,373,198	\$ 277,086	\$ 3,650,324
Fund Balances				
Reserved for Postage	\$ 40	\$ 1,463	\$ 101	\$ 1,604
Unreserved, Undesignated	-	3,371,735	276,985	3,648,720
Total Fund Balances	\$ 40	\$ 3,373,198	\$ 277,086	\$ 3,650,324

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Funds			Other Funds	Total Governmental Funds (Memorandum Only)
	State General Fund 1000	BELF Cash Fund 2322	Temporary School Fund 6136		
RECEIPTS:					
Appropriations	\$ 395,754	\$ -	\$ -	\$ -	\$ 395,754
Sales & Charges	60,160	11,828	-	19,353	91,341
Miscellaneous:					
Interest	-	332,948	-	8,680	341,628
Revenues from Land Use	-	3,894	20,501,389	502,240	21,007,523
Other Miscellaneous	-	24,359	-	263,939	288,298
TOTAL RECEIPTS	<u>455,914</u>	<u>373,029</u>	<u>20,501,389</u>	<u>794,212</u>	<u>22,124,544</u>
DISBURSEMENTS BY FUNCTION:					
Education	-	5,076,079	55,708	-	5,131,787
General Government	395,754	-	-	22,804	418,558
TOTAL DISBURSEMENTS	<u>395,754</u>	<u>5,076,079</u>	<u>55,708</u>	<u>22,804</u>	<u>5,550,345</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>60,160</u>	<u>(4,703,050)</u>	<u>20,445,681</u>	<u>771,408</u>	<u>16,574,199</u>
OTHER FINANCING SOURCES (USES):					
Sales of Assets	76	28,276	-	4,923,118	4,951,470
Deposits to the State General Fund	(60,236)	-	-	-	(60,236)
Net Distributive Activity	-	(3,409)	-	(6)	(3,415)
Deposits to Common Funds	-	-	(13,330,381)	(5,416,690)	(18,747,071)
Operating Transfers In	-	7,515,300	400,000	-	7,915,300
Operating Transfers Out	-	(400,000)	(7,515,300)	(117,399)	(8,032,699)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(60,160)</u>	<u>7,140,167</u>	<u>(20,445,681)</u>	<u>(610,977)</u>	<u>(13,976,651)</u>
Net Change in Fund Balances	-	2,437,117	-	160,431	2,597,548
FUND BALANCES, JULY 1, 2001	<u>40</u>	<u>936,081</u>	<u>-</u>	<u>116,655</u>	<u>1,052,776</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 40</u>	<u>\$ 3,373,198</u>	<u>\$ -</u>	<u>\$ 277,086</u>	<u>\$ 3,650,324</u>

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Board of Educational Lands and Funds are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Board of Educational Lands and Funds (Board) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Board is exempt from State and Federal income taxes. The financial statements include all funds of the Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Board, or the significance of their relationship with the Board 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 Board 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 Board.

These financial statements present the Nebraska Board of Educational Lands and Funds. No component units were identified. The Nebraska Board of Educational Lands and Funds 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 Board 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 Board. 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 Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 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 Board reported the following general receipts: Appropriations and Investment Income. Appropriations 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 Board's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Board 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 Board reports the following major governmental funds:

General Fund. This fund is used to account for services and expenses of the State Surveyor. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

BELF Cash Fund. This fund is used to pay the costs of administering the unsold school lands.

Temporary School Fund. This fund is used to record receipts from the rental of school lands. The Board has no control over the fund after the deposits have been made, and the fund balances are reflected in the Nebraska State Treasurer's financial statements.

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 Board 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 Board. This differs

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board were designated for investment during fiscal year 2002.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board earn sick and annual leave. Temporary and intermittent employees and Board 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.

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.

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 Board 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 Board, 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:

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- 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 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 Board of Educational Lands and Funds' financial statements.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 Board 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 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 \$62,595 and the Board contributed \$97,648.

5. Net Distributive Activity

Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Board, 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 Board's Net Distributive Activity for the audit period consists of mineral bond deposits and sales tax. The Board required mineral lessors to furnish bonds to indemnify the State against loss. The mineral bond deposits on hand at June 30, 2002 totaled \$76,091.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **Transfers**

Operating Transfers include \$7,515,300 transferred from the Temporary School Fund 6136 to the BELF Cash Fund 2322 per Neb. Rev. Stat. Section 72-232.02 R.R.S. 1996, for the costs of administering the unsold school lands. The Board transferred \$400,000 from the BELF Cash Fund 2322 to the Temporary School Fund 6136. In addition, the land use revenues from Agriculture and University lands was transferred from Fund 6332 to the University. The Board retained 10% of the revenues for administration. During the fiscal year, \$117,399 was transferred to the University.

7. **Deposits to Common Funds**

Deposits to Common Funds represent the collections made by the Board that were due to the Temporary School Fund and the Permanent School Fund. Since the Board has no control over these funds once the deposits were made to the funds, the fund balances were not reflected in the Board's financial statements.

8. **Sales of Assets**

Sales of Assets represents the total money received from the sale of the Board's capital assets and the sale of school lands. During the fiscal year, the Board received \$4,923,118 from the sale of school lands.

9. **Disbursements**

Disbursements for the BELF Cash Fund 2322 includes \$2,356,084 of payments to county treasurers for real estate taxes on leased educational lands per Neb. Rev. Stat. Section 77-202 and 77-202.11 R.S.Supp., 2002. This amount represents the first half payment of calendar year 2001 taxes which were due May 1, 2002. These taxes are imposed on the leaseholders (not the Board or the State of Nebraska) and the land is not subject to any lien in the event of non-payment. Section 77-202.11 allows the Board to voluntarily pay the tax, and collect that tax from the leaseholder as part of the rent, which the Board has chosen to do with respect to all parcels and lessees. Calendar year 2001 was the first year leased educational lands were subject to real estate taxes. The statutes concerning in lieu of tax payments by the State Department of Education were not repealed and apply if (and only to the extent) educational lands are not lawfully taxable.

10. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (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.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. GASB 34 (Concluded)

The Board implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Board'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 Board 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 Board.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
SUPPLEMENTARY INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
PROGRAM:				
529-Land Surveys	\$ 404,888	\$ 404,888	\$ 395,754	\$ 9,134
TOTAL DISBURSEMENTS	\$ 404,888	\$ 404,888	\$ 395,754	\$ 9,134

See Notes to Supplementary Information

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUND
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

BELF Cash Fund 2322				
PROGRAM:	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		\$
582-School Land Trust	\$ 7,591,799	\$ 7,591,799	\$ 5,076,079	\$ 2,515,720
TOTAL DISBURSEMENTS	\$ 7,591,799	\$ 7,591,799	\$ 5,076,079	\$ 2,515,720

See Notes to Supplementary Information

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

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 Board's legally adopted annual budget amount. The Board's budgetary comparison schedules include the general fund and BELF Cash Fund 2322.

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 Board 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*.

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.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

All State budgetary disbursements for the general fund and the Board's major special revenue 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.

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2002

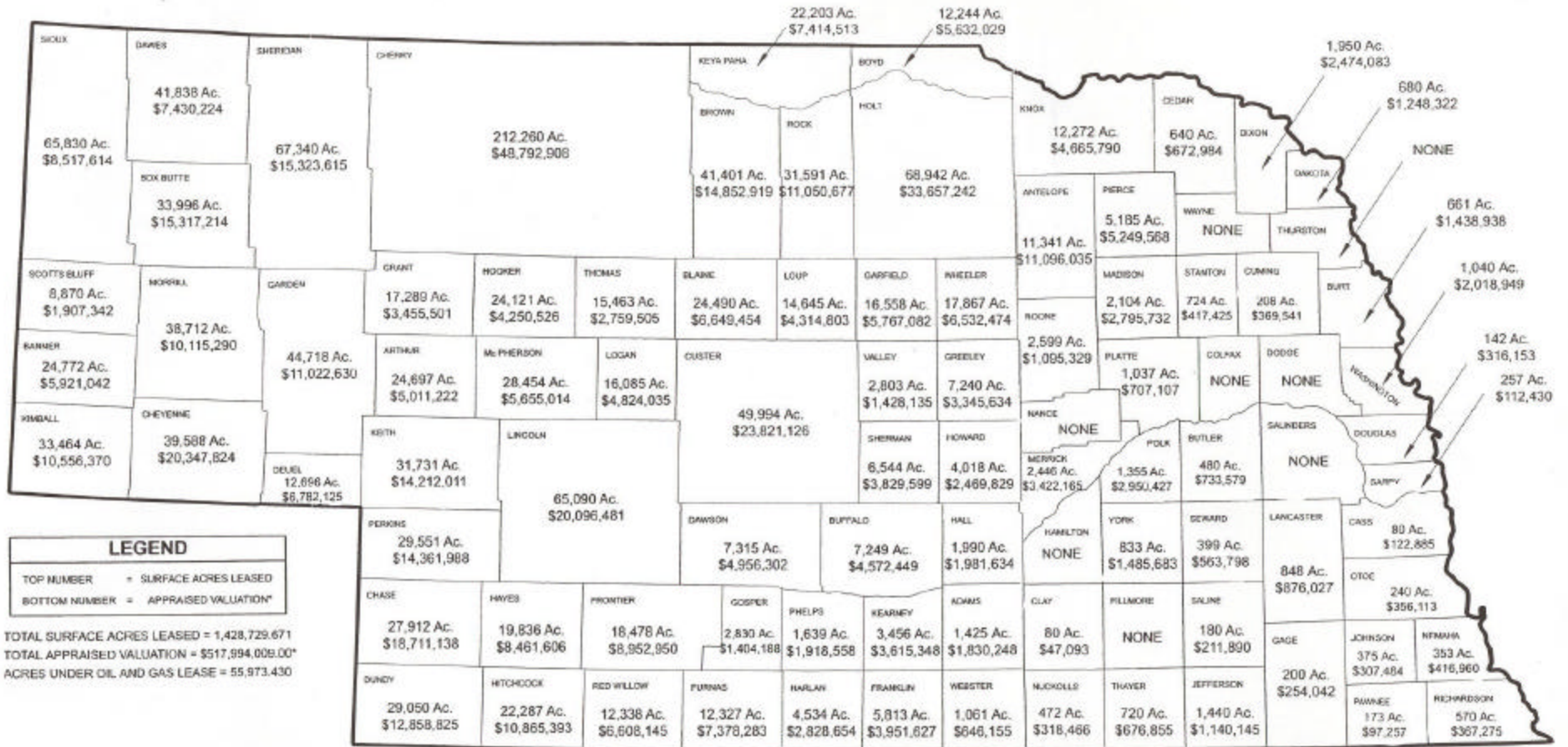
	Special Revenue			Total Nonmajor Governmental Funds
	Surveys Cash Fund 2321	Survey Record Repository Fund 2323	Ag. & Univ. Land Lease Fund 6332	
Assets				
Cash in State Treasury	\$ 3,215	\$ 44,289	\$ 229,481	\$ 276,985
Deposit with Vendors	20	81	-	101
Total Assets	\$ 3,235	\$ 44,370	\$ 229,481	\$ 277,086
Fund Balances				
Reserved for Postage	\$ 20	\$ 81	\$ -	\$ 101
Unreserved, Undesignated	3,215	44,289	229,481	276,985
Total Fund Balances	\$ 3,235	\$ 44,370	\$ 229,481	\$ 277,086

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds			Permanent Funds		Total Nonmajor Governmental Funds
	Surveys Cash Fund 2321	Survey Record Repository Fund 2323	Ag. & Univ. Land Lease Fund 6332	Total Special Revenue Funds	Permanent School Fund 6334	
RECEIPTS:						
Sales & Charges	\$ -	\$ 19,353	\$ -	\$ 19,353	\$ -	\$ 19,353
Miscellaneous:						
Interest	160	2,320	6,200	8,680	-	8,680
Revenues from Land Use	-	-	9,259	9,259	492,981	502,240
Other Miscellaneous	-	-	263,348	263,348	591	263,939
TOTAL RECEIPTS	<u>160</u>	<u>21,673</u>	<u>278,807</u>	<u>300,640</u>	<u>493,572</u>	<u>794,212</u>
DISBURSEMENTS BY FUNCTION:						
General Government	52	22,752	-	22,804	-	22,804
TOTAL DISBURSEMENTS	<u>52</u>	<u>22,752</u>	<u>-</u>	<u>22,804</u>	<u>-</u>	<u>22,804</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>108</u>	<u>(1,079)</u>	<u>278,807</u>	<u>277,836</u>	<u>493,572</u>	<u>771,408</u>
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	4,923,118	4,923,118
Net Distributive Activity	-	(6)	-	(6)	-	(6)
Deposits to Common Funds	-	-	-	-	(5,416,690)	(5,416,690)
Operating Transfer Out	-	-	(117,399)	(117,399)	-	(117,399)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(6)</u>	<u>(117,399)</u>	<u>(117,405)</u>	<u>(493,572)</u>	<u>(610,977)</u>
Net Change in Fund Balances	108	(1,085)	161,408	160,431	-	160,431
FUND BALANCE, JULY 1, 2001	<u>3,127</u>	<u>45,455</u>	<u>68,073</u>	<u>116,655</u>	<u>-</u>	<u>116,655</u>
FUND BALANCE, JUNE 30, 2002	<u>\$ 3,235</u>	<u>\$ 44,370</u>	<u>\$ 229,481</u>	<u>\$ 277,086</u>	<u>\$ -</u>	<u>\$ 277,086</u>

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

MAP OF K-12 SCHOOL TRUST LANDS
UNAUDITED
 As of June 30, 2002

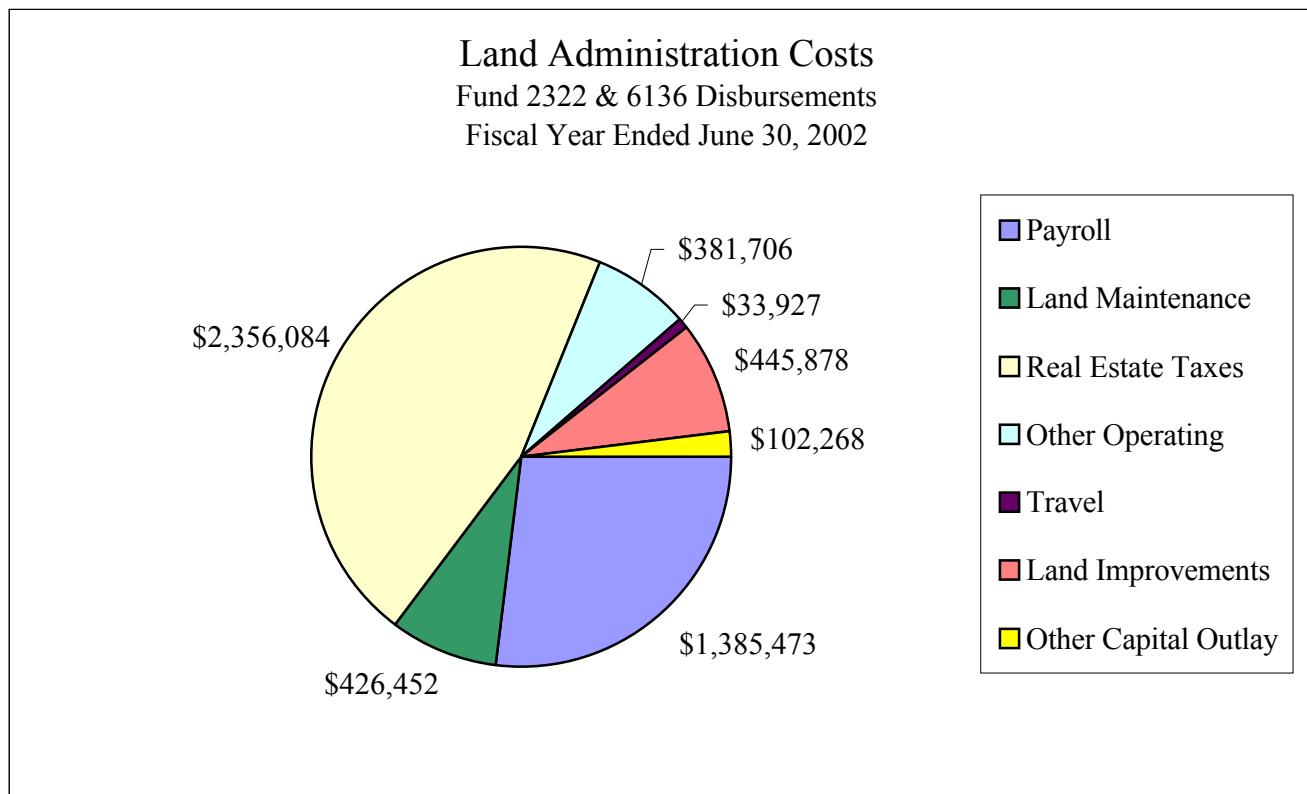


These appraised (rental) valuations are used only to compute in lieu of tax payments. They do not reflect market values and are not used for land sales.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
SCHEDULE OF LAND REVENUES AND COSTS
UNAUDITED

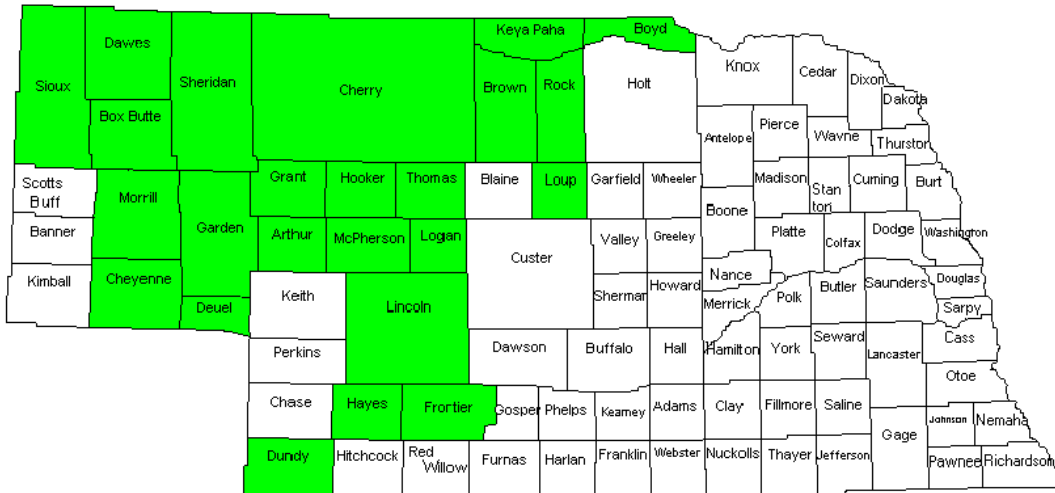
	Fiscal Year Ended June 30			
	1999	2000	2001	2002
Land Use Revenues (1)	\$ 21,312,313	\$ 22,402,912	\$ 22,009,660	\$ 20,998,263
Administrative Costs (2)	\$ 2,513,701	\$ 2,421,576	\$ 2,426,786	\$ 5,131,787
Calculated Net Revenue (3)	\$ 18,798,612	\$ 19,981,336	\$ 19,582,874	\$ 15,866,476
Market Valuation (4)	\$ 370,177,386	\$ 380,369,560	\$ 391,602,010	\$ 403,589,246
Calculated Return (5)	5.1%	5.3%	5.0%	3.9%

- (1) NAS Accounts 8200's for funds 2322, 6136, 6334. Includes rent and royalties, does not include land sales.
(2) Disbursements for funds 2322, 6136, 6334.
(3) Land Use Revenues less Administrative Costs.
(4) Per BELF biennial reports, approximate market value using University valuation data.
(5) Calculated Net Revenue divided by Market Valuation.



Notes: Land Maintenance includes spraying for noxious weeds. Land Improvements include items such as irrigation wells and terraces.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
SCHEDULE OF LAND SALES
 Fiscal Year Ended June 30, 2002
 UNAUDITED

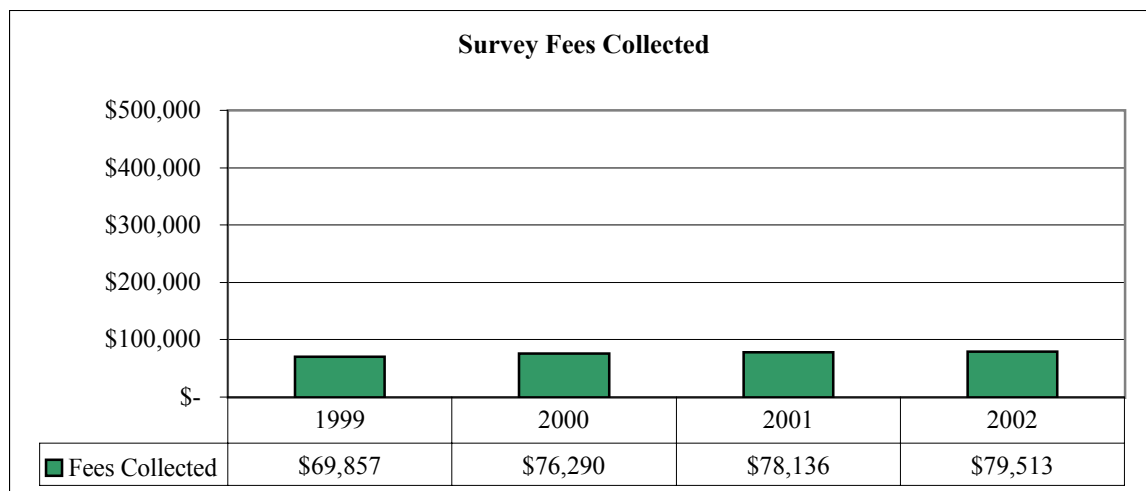
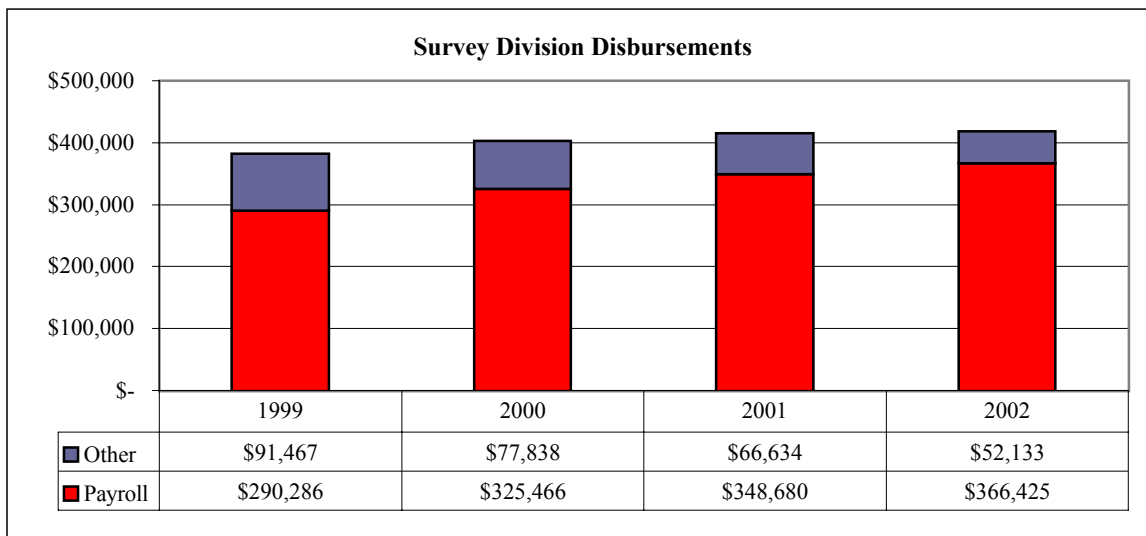
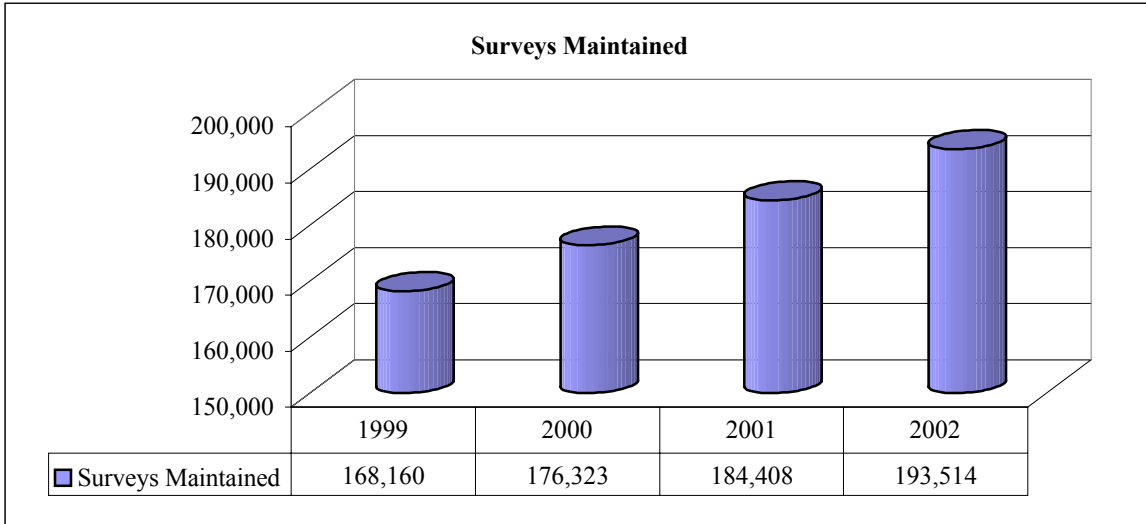


Note: Shaded areas are counties with land sales in fiscal year 2002.

County	Total Acres	Valuation	Sale Price
Arthur	640	\$ 109,000	\$ 109,000
Box Butte	1,920	303,000	311,000
Boyd	720	221,500	221,500
Brown	1,280	284,600	284,600
Cherry	2,430	596,200	596,200
Cheyenne	654	89,700	89,700
Dawes	640	125,000	291,000
Deuel	326	65,000	65,000
Dundy	2,080	476,700	639,500
Frontier	360	200,300	200,300
Garden	4,795	919,200	1,074,600
Grant	2,246	388,400	388,400
Hayes	170	65,300	65,300
Hooker	2,132	336,800	336,800
Keya Paha	640	161,500	161,500
Lincoln	960	215,700	215,700
Logan	640	113,700	113,700
Loup	160	42,200	42,200
McPherson	1,920	315,200	315,200
Morrill	2,080	403,800	403,800
Rock	758	168,600	168,600
Sheridan	781	222,000	222,000
Sioux	1,120	140,400	186,300
Thomas	3,764	635,600	641,100
Totals	33,216	\$ 6,599,400	\$ 7,143,000

Notes: Per statute educational lands shall be sold at not less than appraised value. Sale price does not agree to sales on the financial statements as not all payments were received as of June 30, 2002. We noted 4,840 acres in Garden and Cherry Counties sold to R.E. Turner for \$1,131,400.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
SURVEY DIVISION STATISTICS
 Fiscal Years Ended June 30, 1999 through 2002
 UNAUDITED



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska Board of Educational Lands and Funds as of and for the year ended June 30, 2002, and have issued our report thereon dated February 4, 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 Board of Educational Lands and Funds. 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 Board of Educational Lands and Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Board of Educational Lands and Funds in the Comments Section of this report as Comment Number 3 (Employee Vacation Leave), Comment Number 4 (Travel Expenses), and Comment Number 5 (Leases).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Board of Educational Lands and Funds' 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 another matter involving the internal control over financial reporting that we have reported to management of Nebraska Board of Educational Lands and Funds in the Comments Section of this report as Comment Number 4 (Travel Expenses).

This report is intended solely for the information and use of the Board, 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.

February 4, 2003

Pat Reding, CPA
Assistant Deputy Auditor