

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

BACKGROUND

The Department of Environmental Control was created in 1971 by the Nebraska Environmental Protection Act. Legislation passed in 1992 changed the Agency's name to the Department of Environmental Quality. The 1971 act established the Environmental Control Council, which now is the Environmental Quality Council. The Council consists of 16 members appointed by the Governor. Members represent specific interests or industries affected by and or concerned with pollution control. The Department Director is appointed by the Governor upon recommendation of the Council and with the Legislature's consent. The Director serves as Secretary of the Council.

The Department operates with State general funds, cash funds, and federal funds. The Department is organized into six divisions and one program: Water Quality Division, Air Division, Waste Division, Management Services Division, Environmental Assistance Division, Legal Division, and the Low-Level Radioactive Waste Program. The Department administers several aid programs, including the Litter Reduction and Recycling Program, the Waste Reduction and Recycling Incentive Grant Program, the Scrap Tire Reduction and Recycling Incentive Program, the Landfill Closure Assistance Program, the Waste Water and Drinking Water State Revolving Loan Fund Programs (which provide low-interest loans for waste water and drinking water facilities), and the Title 200 Petroleum Release Reimbursement Program.

The Department administers the rules, regulations, and standards adopted to protect and improve water, air, and land quality in the State. The Department also provides services to towns, industries, and citizens through requested conferences, meetings, and environmental assistance, as well as reviews of pollution control facility plans and specifications.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

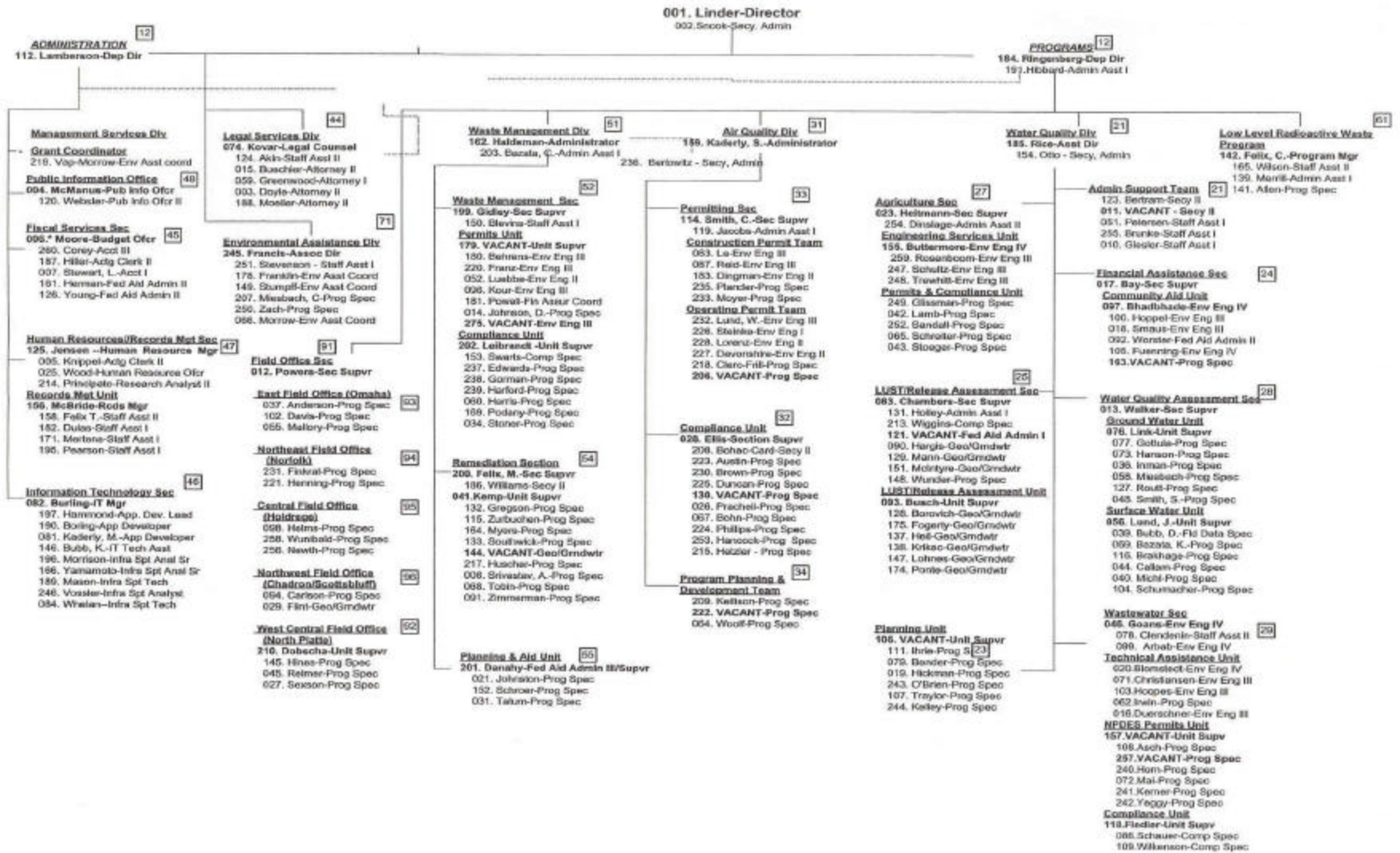
MISSION STATEMENT

Whereas the water, land, and air of this State are among its most precious resources and the pollution thereof becomes a menace to the health and welfare of each person, and the public in general, in this State and whereas pollution of these resources in this State is likewise a concern in adjoining states, the public policy of this State is hereby declared to be:

- (1) To conserve the water in this State and to protect and improve the quality of water for human consumption, wildlife, fish and other aquatic life, industry, recreation, and other productive, beneficial uses;
- (2) To achieve and maintain such a reasonable degree of purity of the natural atmosphere of this State that human beings and all other animals and plants which are indigenous to this State will flourish in approximately the same balance as they have in recent history and to adopt and promulgate laws, rules, and regulations and enforce uniformly the same in such a manner as to give meaningful recognition to the protection of each element of the environment, air, water, and land;
- (3) To cooperate with other states and the federal government to accomplish the objectives set forth in the Environmental Protection Act, the Integrated Solid Waste Management Act, and the Livestock Waste Management Act; and
- (4) To protect human health through environmental enforcement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Environmental Quality, 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. **Capital Assets:** Our review noted the Department did not take a physical inventory during the fiscal year ended June 30, 2002, did not have all its property tagged as "Property of the State of Nebraska," and had one individual who was responsible for performing all duties related to capital assets.
2. **Travel Expenses:** The Department did not have meal/food receipts or logs, prior travel approvals, or complete travel reimbursement documents on file to support travel expenses paid.
3. **Timeliness of Deposits:** The Department did not deposit all funds received within the time period required by statute.
4. **Audit Delays:** The audit fieldwork for this audit was performed with difficulty and delay because requested records and financial data were not received in a timely manner. Although the auditors believe the Department made efforts to get the records and financial data to the auditors in a timely manner, certain records and financial data were never obtained.

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. All formal responses received have been incorporated into this report. The 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.

COMMENTS AND RECOMMENDATIONS

1. Capital Assets

Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999, states each department “shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission or other state agency.” Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999 states “Each . . . state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska.” Good internal control requires an adequate segregation of duties to exist for maintaining, adding, approving, and reviewing capital assets. Good internal control also requires a physical inventory of capital assets be conducted on a regular basis. The Nebraska Accounting System (NAS) Manual ACCT-005 Chart of Accounts requires all items coded to 4800 account codes be capital outlay expenditures. Neb. Rev. Stat. Section 81-161.04(2) R.S.Supp., 2002 states, “. . . the proceeds of the sales shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property.”

During our review of the Department’s capital assets, we noted the following:

- No physical inventory was taken during the fiscal year ended June 30, 2002.
- Four of five items tested did not have a “Property of the State of Nebraska” tag on the item.
- One individual was responsible for maintaining capital asset records, adding items to the capital asset records, preparing Surplus Property Notification forms, deleting items from the capital asset records, and ensuring new purchases were added to the capital asset records. There was no review of the employee’s work.
- Items purchased were coded to 4800 capital asset account codes but were not capital assets.
- All the items sold at surplus property sales were deposited into the Indirect Cost Fund 4844. There were no journal entries done to credit the fund of original purchase.

As a result, there is an increased risk of loss or misuse of State funds and assets. Also, there is a possible financial statement misrepresentation when items are coded to the wrong account codes.

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Capital Assets (Concluded)

We recommend the Department:

- Conduct an annual physical inventory of capital assets.
- Mark all capital asset items with a “Property of the State of Nebraska” tag.
- Ensure there is an adequate segregation of duties over capital assets or there is an overview of the process by another individual.
- Ensure all items coded to the 4800 account codes are added to the Department’s capital asset listing. Purchases under \$1,500 should be expensed and not coded as capital outlay expenditures.
- Deposit all proceeds from the sale of surplus property into the general fund. If the item can be traced to a different fund of original purchase, a journal entry can then be completed to credit the original fund.

Department’s Response: The Department concurs with the recommendation and will implement the recommendations.

2. Travel Expenses

According to the Nebraska Accounting System Manual, CONC-005, Travel Expense Policies, Section 5, the Internal Revenue Service requires employees to substantiate the cost for travel expenses, and adequate accounting requires a documentation record such as a log listing the date, amount, place or description, and purpose for **each** expense or meal/food cost. CONC-005, Section 3 states original receipts and a document showing the date, purpose, and agenda of the conference must be attached to the payment document. Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 states employees entitled to reimbursement for expenses must present a request each month to the Director of Administrative Services and each request must be fully itemized including when, where, and why. Good business practices require documentation of prior management approval of travel and related expenses to ensure actual expenses reimbursed are reasonable and necessary.

During our review of eight of the Department’s travel expense reimbursement documents, we noted the following:

- Four documents included meal/food reimbursements totaling \$548 that did not have receipts or logs on file or available to the auditor.
- One document included meal/food reimbursements totaling \$24 that had receipts attached, but the receipts were not itemized.

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Travel Expenses (Concluded)

- Seven documents that included out of state travel did not have a prior travel approval form on file.
- Four of the documents included lodging costs that exceeded the maximum lodging costs as set by the U.S. General Services Administration (GSA). Without prior travel approval as documented above, we could not determine such lodging costs were pre-approved and reasonable.
- Two documents included rental car costs totaling \$261 that did not have documentation supporting the need for the rental car. Again, without prior travel approval, we could not determine the rental car costs were pre-approved and reasonable.
- Three documents included expenses incurred over a period of more than one month.
- Two documents did not include the time the travel stopped.

The auditors were told the Department was using a prior travel authorization process and form, but the prior travel approval forms we requested were never provided to the auditors. As a result of not adequately documenting travel expenses, there is an increased risk of improper or excessive travel expenses being reimbursed.

We recommend the Department:

- Maintain documentation of all prior authorizations of travel expenses.
- Require itemized receipts or logs be maintained for meal/food costs reimbursed.
- Maintain documentation supporting all lodging costs in excess of the GSA rate.
- Maintain documentation supporting the need for all miscellaneous costs including rental cars.
- Require employees to file expense reimbursement documents that cover no more than a one-month period.
- Require all reimbursement requests be fully itemized, including start and stop times for each trip.

Department's Response: The Department has changed procedures to implement most of the recommendations. Those procedures include requiring receipts or meal logs to be included with expense requests and requiring out of state travel approval forms attached to the expense vouchers. We believe these efforts will resolve the issues identified in the audit report.

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Timeliness of Deposits

Neb. Rev. Stat. Section 84-710 R.R.S. 1999, states, “It shall be unlawful for any executive department . . . to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.”

During our review of the Department’s receipts, we noted 7 of 18 receipts tested were not deposited within the three or seven day requirement. Of the seven deposits not meeting the requirement, the largest receipt tested was \$238,693. We also noted one \$500 receipt tested was not deposited until 38 days after it was received.

As a result there is an increased risk of loss or misuse of State funds and a loss of investment income.

We recommend the Department make deposits as required by statute.

Department’s Response: The Department strives to meet the statutory requirements regarding deposit of funds received. The Department will reemphasize to agency staff the importance of providing any funds received by programs to the appropriate individuals so deposit can be made which meets statutory requirements.

4. Audit Delays

Neb. Rev. Stat. Section 84-304 R.S.Supp., 2002 establishes the powers and duties of the Auditor of Public Accounts. These duties include . . . “(9) To conduct all audits and examinations in a timely manner . . .”

The audit fieldwork for this audit was performed with difficulty and delay because requested records and financial data were not received in a timely manner. Although the auditors believe the Department made efforts to get the records and financial data to the auditor in a timely manner, certain records and financial data were never obtained.

The auditors requested, and never received, records and financial data related to travel expenses.

Such delays caused the audit to be completed in an inefficient and untimely manner.

We recommend the Department make available to the Auditor of Public Accounts the necessary staff and records so future audits can be completed in an efficient manner.

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Audit Delays (Concluded)

Department's Response: The Department apologizes that you had difficulty getting information in a timely manner. The Department would request that if the Auditors Office has any concerns about timely response in the future, you raise that to the agency administration so those issues can be dealt with. It is our intent to be both courteous and responsive to the auditors needs.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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 Environmental Quality (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.

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 Department of Environmental Quality, 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 Environmental Quality. 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 Environmental Quality, 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 July 28, 2003, on our consideration of the Nebraska Department of Environmental Quality'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, schedule, 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 schedule, 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.

Pat Reding, CPA

July 28, 2003

Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environmental Quality's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Department of Environmental Quality 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 Environmental Quality'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 ENVIRONMENTAL QUALITY

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 a schedule of performance measures. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Department of Environmental Quality'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 9 percent.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities		% Change
	2002	2001	
Restricted	\$ 79,739,995	\$ 74,052,009	8%
Unrestricted	7,062,874	5,670,120	25%
Total Net Assets	<u>\$ 86,802,869</u>	<u>\$ 79,722,129</u>	<u>9%</u>

Governmental Activities

Receipts for the Department's governmental activities decreased 4 percent, while disbursements increased 10 percent.

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities		% Change
	2002	2001	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 26,176,776	\$ 28,242,191	-7%
Operating Grants & Contributions	36,615,895	38,998,123	-6%
General Receipts:			
Appropriations	8,430,138	6,449,718	31%
Investment Interest	209,425	383,638	-45%
Total Receipts	<u>71,432,234</u>	<u>74,073,670</u>	<u>-4%</u>
DISBURSEMENTS:			
Conservation of Natural Resources	54,426,284	56,101,595	-3%
Regulation of Business and Professions	13,027,134	5,297,959	146%
Total Disbursements	<u>67,453,418</u>	<u>61,399,554</u>	<u>10%</u>
Excess (Deficiency) before Other Financing Sources and Uses	3,978,816	12,674,116	-69%
OTHER FINANCING SOURCES & USES	<u>3,101,924</u>	<u>5,175,672</u>	<u>-40%</u>
Increase (Decrease) in Net Assets	<u>7,080,740</u>	<u>17,849,788</u>	<u>-60%</u>
Beginning Net Assets July 1	<u>79,722,129</u>	<u>61,872,341</u>	<u>29%</u>
Ending Net Assets June 30	<u>\$ 86,802,869</u>	<u>\$ 79,722,129</u>	<u>9%</u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Disbursements under the Regulation of Business and Professions Function increased by \$7,729,175 due to increased activity in the Petroleum Release Cash Fund 2849 to reduce the backlog of cleanup sites; and due to increased legal costs in the Low-Level Radioactive Waste Cash Fund 2844 because the Central Interstate Low-Level Radioactive Waste Compact Commission's federal lawsuit went to court in June through August 2002.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Department of Environmental Quality 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:

General Fund 1000

<u>Total Disbursements Fiscal Year 2002</u>	<u>Total Disbursements Fiscal Year 2001</u>	<u>Dollar Change</u>
\$ 8,430,138	\$ 6,449,718	\$ 1,980,420

The General Fund disbursements increased during the fiscal year ended June 30, 2002. This was largely due to increased legal costs because the Central Interstate Low-Level Radioactive Waste Compact Commission's federal lawsuit went to court in June through August 2002.

Petroleum Release Cash Fund 2849

<u>Total Disbursements Fiscal Year 2002</u>	<u>Total Disbursements Fiscal Year 2001</u>	<u>Dollar Change</u>
\$ 7,361,563	\$ 3,715,645	\$ 3,645,918

The Petroleum Release Cash Fund 2849 disbursements increased during the fiscal year ended June 30, 2002. This was largely due to the Department increasing activity in the Program to reduce the backlog of cleanup sites.

Wastewater Facility Construction Loan Fund 6847

<u>Total Disbursements Fiscal Year 2002</u>	<u>Total Disbursements Fiscal Year 2001</u>	<u>Dollar Change</u>
\$ 5,706,213	\$ 2,910,462	\$ 2,795,751

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Wastewater Facility Construction Loan Fund 6847 disbursements increased during the fiscal year ended June 30, 2002. This was largely due to the Department making an additional 20 loans in the fiscal year ended June 30, 2002 from repaid principal instead of making the loans from Federal dollars.

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 Environmental Quality.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 83,489,202
Investments Held by Bond Trustee (Note 3)	3,192,875
Investments (Note 4)	111,869
Deposit with Vendors	8,923
Total Assets	\$ 86,802,869
Net Assets	
Restricted for:	
Wastewater Treatment Facility Construction Assist. Act	\$ 33,456,928
Petroleum Release Remedial Action Act	33,261,836
Drinking Water State Revolving Fund Act	6,251,628
Integrated Solid Waste Management Act	3,461,688
Low-Level Radioactive Waste Disposal Act	1,183,915
Nebraska Litter Reduction and Recycling Act	1,002,850
Federal Programs	667,143
Other Programs and Acts	454,007
Unrestricted	7,062,874
Total Net Assets	\$ 86,802,869

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

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

	Governmental Activities TOTAL (Memorandum Only)	FUNCTION	
		<u>Conservation of Natural Resources</u>	<u>Regulation of Business and Professions</u>
Disbursements:			
Personal Services	\$ 10,769,122	\$ 8,924,567	\$ 1,844,555
Operating	19,908,424	13,093,528	6,814,896
Travel	460,273	380,421	79,852
Capital Asset Purchases	281,531	248,479	33,052
Government Aid	36,034,068	31,779,289	4,254,779
Total Disbursements	<u>67,453,418</u>	<u>54,426,284</u>	<u>13,027,134</u>
Program Receipts:			
Charges for Services	26,176,776	12,992,238	13,184,538
Operating Grants & Contributions	36,615,895	34,556,529	2,059,366
Net Program Receipts (Disbursements)	<u>(4,660,747)</u>	<u>(6,877,517)</u>	<u>2,216,770</u>
General Receipts and Other Financing Sources & Uses:			
Appropriations	8,430,138		
Unrestricted Investment Interest	209,425		
Other Financing Source & Uses	<u>3,101,924</u>		
Total General Receipts and Other Financing Sources & Uses	<u>11,741,487</u>		
Change in Net Assets	7,080,740		
Net Assets July 1, 2001	<u>79,722,129</u>		
Net Assets June 30, 2002	<u><u>\$ 86,802,869</u></u>		

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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	Petroleum Release Cash Fund 2849	Water Pollution Fund 4841	Wastewater Facility Construction Loan Fund 6847		
Assets						
Cash in State Treasury	\$ -	\$ 33,261,636	\$ 458,591	\$ 31,855,327	\$ 17,913,648	\$ 83,489,202
Investments Held by Bond Trustee	-	-	-	-	3,192,875	3,192,875
Deposit with Vendors	785	200	3,069	-	4,869	8,923
Investments	-	-	-	-	111,869	111,869
Total Assets	\$ 785	\$ 33,261,836	\$ 461,660	\$ 31,855,327	\$ 21,223,261	\$ 86,802,869
Fund Balances						
Reserved for:						
Postage	\$ 785	\$ 200	\$ 3,069	\$ -	\$ 4,869	\$ 8,923
Unreserved	-	33,261,636	458,591	31,855,327	-	65,575,554
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	-	21,218,392	21,218,392
Total Fund Balances	\$ 785	\$ 33,261,836	\$ 461,660	\$ 31,855,327	\$ 21,223,261	\$ 86,802,869

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Funds		
	General	Petroleum	Water
	Fund 1000	Release Cash Fund 2849	Pollution Fund 4841
RECEIPTS:			
Appropriations	\$ 8,430,138	\$ -	\$ -
Federal Grants & Contracts	-	-	26,582,734
Sales & Charges (Note 11)	88,700	11,317,911	(25)
Miscellaneous:			
Loan Principal Repayments	-	-	-
Investment Interest	-	1,539,361	26,833
Donations & Contributions	460	-	-
Other Miscellaneous	1,448	372	(18,595)
TOTAL RECEIPTS	8,520,746	12,857,644	26,590,947
DISBURSEMENTS BY FUNCTION:			
Conservation of Natural Resources	8,430,138	-	26,696,705
Regulation of Business and Professions	-	7,361,563	-
TOTAL DISBURSEMENTS	8,430,138	7,361,563	26,696,705
Excess (Deficiency) of Receipts Over (Under) Disbursements	90,608	5,496,081	(105,758)
OTHER FINANCING SOURCES (USES):			
Sales of Assets	-	-	-
Issuance of Bonds	-	-	-
Net Distributive Activity (Note 9)	-	-	-
Deposits to State General Fund	(90,608)	-	-
Operating Transfers In (Note 10)	-	-	-
Operating Transfers Out (Note 10)	-	(51,583)	(5,297)
TOTAL OTHER FINANCING SOURCES (USES)	(90,608)	(51,583)	(5,297)
Net Change in Fund Balances	-	5,444,498	(111,055)
FUND BALANCES, JULY 1, 2001	785	27,817,338	572,715
FUND BALANCES, JUNE 30, 2002	\$ 785	\$ 33,261,836	\$ 461,660

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

Wastewater Facility Construction Loan Fund 6847	Other Funds	Total Governmental Funds (Memorandum Only)
\$ -	\$ -	\$ 8,430,138
-	6,020,700	32,603,434
-	9,127,031	20,533,617
4,929,729	640,652	5,570,381
1,477,573	1,171,705	4,215,472
-	5,954	6,414
-	89,553	72,778
<u>6,407,302</u>	<u>17,055,595</u>	<u>71,432,234</u>
5,706,213	13,593,228	54,426,284
-	5,665,571	13,027,134
<u>5,706,213</u>	<u>19,258,799</u>	<u>67,453,418</u>
<u>701,089</u>	<u>(2,203,204)</u>	<u>3,978,816</u>
-	4,274	4,274
2,180,000	-	2,180,000
636,014	(50,318)	585,696
-	-	(90,608)
-	5,160,190	5,160,190
-	(4,680,748)	(4,737,628)
<u>2,816,014</u>	<u>433,398</u>	<u>3,101,924</u>
3,517,103	(1,769,806)	7,080,740
<u>28,338,224</u>	<u>22,993,067</u>	<u>79,722,129</u>
<u>\$ 31,855,327</u>	<u>\$ 21,223,261</u>	<u>\$ 86,802,869</u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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 Environmental Quality are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Department of Environmental Quality (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 Environmental Quality. No component units were identified. The Nebraska Department of Environmental Quality 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

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.

Petroleum Release Cash Fund. This fund accounts for all fees received and expenses paid related to the Petroleum Release Remedial Action Act. Fees are assessed on the owners of petroleum tanks and on the selling of petroleum. The fund assists in paying the cost of cleanup of sites where petroleum has leaked from tanks, generally service stations.

Water Pollution Fund. This fund accounts for the Department's water pollution Federal funding. It accounts for the Federal grants related to the Wastewater and Drinking Water Construction Programs, the Leaking Underground Storage Tanks Program, and the Nonpoint Source Management Program.

Wastewater Facility Construction Loan Fund. This fund accounts for the Department's Wastewater Treatment Facilities Construction Assistance Act. The fund consists of federal capitalization grants, State matching appropriations, and repayments of principal and interest on loans. Expenditures are primarily low interest loans to municipalities for construction of wastewater treatment facilities and sanitary sewer collection systems.

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 require the Agency-wide fund financial statement 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 Low-Level Radioactive Waste, the Environmental Quality Cash, and the Hazardous Waste Sites funds, were designated for investment during fiscal year 2002.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Cash Held by Bond Trustee. Cash held by the Bond Trustee is invested in money market accounts and guaranteed investment contracts. Although long term in nature, the amount invested by the Bond Trustee is considered cash equivalents due to their liquid nature.

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 Department 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 restricted resources first, then the unrestricted 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 for 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. **Investments Held by Bond Trustee**

The State, through the Nebraska Investment Finance Authority (NIFA) (the “Issuer”) issues revenue bonds to provide additional funds to meet the 20% match requirements of the Clean Water and Drinking Water Program Capitalization Grants. Wells Fargo Bank Iowa, National Association (Trustee), as trustee holds these accounts. The Trustee, in accordance with the Bond Indenture, establishes the appropriate accounts and invests the monies. At June 30, 2002, the Cash held by Bond Trustee of \$3,192,875, stated at fair market value, was invested in the following investments:

	<u>Fair Market Value</u>
Money Market Account	\$ 2,379,355
Guaranteed Investment Contracts (GICs)	813,520
Total	<u>\$ 3,192,875</u>

In accordance with GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, deposits and investments are to be categorized as to custodial credit risk. The Money Market Accounts, with a carrying amount and bank amount of \$2,379,355, were uninsured and uncollateralized during and at the end of fiscal year 2002.

GICs are not required to be categorized as to custodial credit risk under GASB Statement Number 3.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Investments**

Investments of \$111,869 are investments held by the State Treasury, and are invested by the Nebraska Investment Officer in mutual funds, and are stated at fair market value.

Neb. Rev. Stat. Section 72-1247 R.S.Supp., 2000 authorized the State Investment Officer to invest the State's funds in accordance with the prudent person rule. The State Investment Officer could not buy on margin, buy call options, or buy put options. The Department's investments are categorized to give an indication of the level of custodial risk assumed by the Department at year-end. The investments of the Department are not required to be categorized under GASB Statement Number 3.

5. **Bonds Payable**

The Wastewater and Drinking Water Programs are funded with Federal money and the matching requirement is funded by the Department through the issuance of bonds. The Department has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Department's Drinking Water Program. NIFA issues the bonds, and proceeds are held by the Trustee until needed by the Drinking Water Program for loan purposes. The Series 2000A and 2001A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A and 2001A Bonds are revenue bonds. The Series 2000A and 2001A bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged to the principal of, premium, if any, or the interest on the Series 2000A or 2001A Bonds. Bonds payable are not recorded on the cash basis of accounting. Bonds payable for the fiscal year ended June 30, 2002, are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ 7,345,000	\$ -	\$ 160,000	\$ 7,185,000

Bonds payable at June 30, 2002 consist of the following:

Series	Original Issue	Retirements	2002 Balance	Interest Rates	Final Maturity Date
1999	\$ 2,000,000	\$ 2,000,000	\$ -	-	-
2000A	\$ 5,530,000	\$ 160,000	\$ 5,370,000	4.8-5.7%	July 1, 2015
2001A	\$ 1,815,000	\$ -	\$ 1,815,000	3.9-5.15%	Jan. 1, 2016

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Bonds Payable (Concluded)**

The 2000A Series Bonds were issued June 29, 2000 and the 2001A Series Bonds were issued March 29, 2001. Bonds mature at various intervals through July 2016. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2003	\$ 330,000	\$ 371,200	\$ 701,200
2004	345,000	355,321	700,321
2005	365,000	338,443	703,443
2006	375,000	320,500	695,500
2007	395,000	301,678	696,678
2008-2012	2,315,000	1,177,844	3,492,844
2013-2016	3,060,000	427,310	3,487,310
Total	<u>\$ 7,185,000</u>	<u>\$ 3,292,296</u>	<u>\$ 10,477,296</u>

Series 2002A Bonds for \$2,000,000 were issued in December 2002. These bonds are not included in the debt service requirement schedule.

The Wastewater Program issued and redeemed \$2,180,000 in short-term revenue bonds during the fiscal year ended June 30, 2002. Therefore, at June 30, 2002, no Wastewater Program bonds were outstanding.

6. **Loans Receivable**

The State operates the Wastewater and Drinking Water Programs as direct loan programs, whereby loans are made to communities, and, on the average, are 83.33% federally funded, and 16.67% funded by the State. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date that funds are advanced, and after the final disbursement has been made. The interest rates on loans range from 3% to 4% and the terms are between 5 and 30 years. On the cash basis, loans receivable are not included on the financial statements. The total loans receivable as of June 30, 2002, was \$47,960,786 for the Wastewater Program and \$19,092,053 for the Drinking Water Program.

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Contingencies and Commitments

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

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

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 Department of Environmental Quality's financial statements.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Litigation. On September 30, 2002, US Federal District Court Judge Richard Kopf issued a decision in a lawsuit filed December of 1998 by the Central Interstate Low-Level Radioactive Waste Compact Commission and the major generators of LLRW in the compact. The Judge's Memorandum and Order determined that the State of Nebraska breached its good faith obligations under the Compact and ordered the State to pay the Commission \$151,408,240 for its violation of Federal law.

The State of Nebraska has appealed the judgment to the 8th Circuit Court of Appeals. The parties have completed the briefing schedule and oral arguments have been scheduled for June 12, 2003 in St. Paul, Minnesota. The 8th Circuit panel of judges is expected to issue a decision in the fall.

The potential amount of liability involved in the above case or any other litigation pending against the Department, 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.

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. 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%.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. State Employees Retirement Plan (Plan) (Concluded)

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the 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 \$354,200 and the Department contributed \$552,553.

9. Net Distributive Activity

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

The Department's Net Distributive Activity for the audit period consisted of the following:

Fund/Explanation	Amount
Wastewater Facility Construction Loan Fund 6847	
Interest and Penalties Received from Communities on Loans	\$ 2,845,689
Bond Interest and Principal Payments made to Bond Trustee	(2,209,675)
Total	\$ 636,014
Other Funds	
Drinking Water Facility Loans Fund 6848	
Interest and Penalties Received from Communities on Loans	\$ 877,385
Bond Interest and Principal Payments made to Bond Trustee	(927,710)
Indirect Cost Fund 4844	
Other Activity	7
Total	\$ (50,318)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. **Operating Transfers In and Out**

Transfers consists of the following:

Fund/Explanation	Amount
Transfers In:	
Low-Level Radioactive Waste Fund 2844	
Statutory transfer from Fund 2837	\$ 3,934,080
Drinking Water Facility Loans Fund 6848	
Transfers between the Department and the Bond Trustee for bond interest	975,284
Livestock Waste Management Fund 2833	
Statutory transfer from the Nebraska Department of Agriculture	250,000
Waste Reduction/Recycling Incentive Fund 2839	
Other Transfer In	826
Total	\$ 5,160,190
Transfers Out:	
Solid Waste Landfill Closure Fund 2837	
Statutory transfer to Fund 6848	\$ 3,934,080
Drinking Water Facility Loans Fund 6848	
Transfers between the Department and the Bond Trustee for bond interest	745,842
Petroleum Release Cash Fund 2849	
Other Transfer Out	51,583
Water Pollution Fund 4841	
Other Transfer Out	5,297
Scrap Tire Reduction/Recycling Incentive Fund 2836	
Other Transfer Out	826
Total	\$ 4,737,628

11. **Sales & Charges**

The Nebraska Department of Revenue (Revenue) collects various fees, which are required to be deposited in various common funds of the Department of Environmental Quality and Revenue. The amount deposited in these funds (less administrative expenses of Revenue) is available for disbursements by the Department of Environmental Quality for various environmental programs. The total collected by Revenue, and deposited into common funds is as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. Sales & Charges (Concluded)

Fund	Amount
Petroleum Release Cash Fund	\$ 10,823,136
Waste Reduction/Recycling Incentive Fund 2839	2,248,752
Litter Reduction & Recycling Fund 2840	1,288,049
Total	\$ 14,359,937

The State Fire Marshal also collects a fee, deposited into a common fund. The amount deposited in the Petroleum Release Cash Fund is available for disbursements by the Department of Environmental Quality for various environmental programs. The total collected by the Fire Marshal was \$494,775.

12. Combining Activity of Fund 6848

As noted in Note 5, the Department, through the Nebraska Investment Finance Authority (NIFA) (the “Issuer”), issues revenue bonds to provide additional funds to meet the 20% match requirements of the Drinking Water Program. U.S. Bank National Association (Trustee), as trustee holds these accounts. The trustee, in accordance with the Bond Indenture, establishes the appropriate accounts and invests the funds. Certain activity and the balance in these accounts were not recorded on the Nebraska Accounting System (NAS). The following adjustments to Fund 6848 (Drinking Water Facility Loans Fund) were made to record the activity and balance for the period ending and as of June 30, 2002:

	Amount
Investment Interest	\$ 182,309
Issuance of Bonds	\$ (1,349,566)
Operating Transfers In	\$ 927,710
Operating Transfers Out	\$ (520,529)
Cash Held by Bond Trustee June 30, 2002	\$ 3,192,875

13. 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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

13. GASB 34 (Concluded)

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 ENVIRONMENTAL QUALITY
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>			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
PROGRAM:				
513 - Environmental Quality / Operations	\$ 994,129	\$ 688,837	\$ 687,951	\$ 886
523 - Wastewater Treatment Facilities				
Construction	123,362	123,362	82,136	41,226
585 - Low-Level Disposal Act / Operations	4,851,560	4,657,498	4,530,052	127,446
586 - Water Quality	2,314,844	2,314,844	2,314,623	221
587 - Land Quality	659,627	659,627	426,656	232,971
588 - Air Quality	389,527	389,527	388,720	807
TOTAL DISBURSEMENTS	<u>\$ 9,333,049</u>	<u>\$ 8,833,695</u>	<u>\$ 8,430,138</u>	<u>\$ 403,557</u>

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

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 schedule includes the general fund. A budgetary comparison could not be shown for the Petroleum Release Cash Fund 2849, the Water Pollution Fund 4841, and the Wastewater Facility Construction Loan Fund 6847 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 schedule 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 schedule only reports total disbursements *by program*.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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 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 DEPARTMENT OF ENVIRONMENTAL QUALITY
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2002

	Special Revenue					
	Livestock Waste Management Fund 2833	Clean Air Title V Fund 2834	Remedial Action Plan Monitoring Fund 2835	Solid Waste Landfill Closure Fund 2837	Integrated Solid Waste Management Fund 2838	Waste Red/Recycling Incentive Fund 2839
Assets						
Cash in State Treasury	\$ 151,531	\$ 160,297	\$ 69,578	\$ 4	\$ 3,461,049	\$ 6,103,991
Investments Held by Bond Trustee	-	-	-	-	-	-
Deposit with Vendors	-	440	-	-	639	885
Long-Term Investments	-	-	-	-	-	-
Total Assets	\$ 151,531	\$ 160,737	\$ 69,578	\$ 4	\$ 3,461,688	\$ 6,104,876
Fund Balances						
Reserved for:						
Postage	\$ -	\$ 440	\$ -	\$ -	\$ 639	\$ 885
Unreserved, Reported in Nonmajor Special Revenue Funds	151,531	160,297	69,578	4	3,461,049	6,103,991
Total Fund Balances	\$ 151,531	\$ 160,737	\$ 69,578	\$ 4	\$ 3,461,688	\$ 6,104,876

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2002

	Special Revenue					
	Litter Reduction & Recycling Fund 2840	Environmental Quality Cash Fund 2841	Chemigation Cost Fund 2842	Petroleum & Hazard Storage Handling Fund 2843	Low Level Radioactive Waste Fund 2844	Wastewater Treatment OP Cert Fund 2845
Assets						
Cash in State Treasury	\$ 1,002,304	\$ 320,438	\$ 63,359	\$ 121	\$ 681,886	\$ 8,459
Investments Held by Bond Trustee	-	-	-	-	-	-
Deposit with Vendors	546	-	-	-	175	222
Long-Term Investments	-	-	-	-	-	-
Total Assets	\$ 1,002,850	\$ 320,438	\$ 63,359	\$ 121	\$ 682,061	\$ 8,681
Fund Balances						
Reserved for:						
Postage	\$ 546	\$ -	\$ -	\$ -	\$ 175	\$ 222
Unreserved, Reported in Nonmajor Special Revenue Funds	1,002,304	320,438	63,359	121	681,886	8,459
Total Fund Balances	\$ 1,002,850	\$ 320,438	\$ 63,359	\$ 121	\$ 682,061	\$ 8,681

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2002

	Special Revenue					
	Wastewater Loan Administration Fund 2846	LLRW Monitoring Community Fund 2847	LLRW Community Improvements Fund 2848	Drinking Water Administration Fund 2863	Low Level Radioactive Waste Fund 4840	Solid Waste Fund 4842
Assets						
Cash in State Treasury	\$ 1,601,601	\$ 6,779	\$ 23,538	\$ 572,371	\$ 471,537	\$ 19,689
Investments Held by Bond Trustee	-	-	-	-	-	-
Deposit with Vendors	-	-	-	-	-	451
Long-Term Investments	-	-	-	-	-	-
Total Assets	\$ 1,601,601	\$ 6,779	\$ 23,538	\$ 572,371	\$ 471,537	\$ 20,140
Fund Balances						
Reserved for:						
Postage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 451
Unreserved, Reported in Nonmajor Special Revenue Funds	1,601,601	6,779	23,538	572,371	471,537	19,689
Total Fund Balances	\$ 1,601,601	\$ 6,779	\$ 23,538	\$ 572,371	\$ 471,537	\$ 20,140

(Continued)

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

	Special Revenue						Total Nonmajor Governmental Funds
	Air Pollution Fund 4843	Indirect Cost Fund 4844	Department of Defense Sites Fund 4845	Hazardous Waste Sites Fund 6845	Leaking Underground Storage Tanks Fund 6846	Drinking Water Fac Loans Fund 6848	
Assets							
Cash in State Treasury	\$ 168,349	\$ 567,998	\$ 16,282	\$ 1,127	\$ 66,847	\$ 2,374,513	\$ 17,913,648
Investments Held by Bond Trustee	-	-	-	-	-	3,192,875	3,192,875
Deposit with Vendors	712	799	-	-	-	-	4,869
Long-Term Investments	-	-	-	-	-	111,869	111,869
Total Assets	\$ 169,061	\$ 568,797	\$ 16,282	\$ 1,127	\$ 66,847	\$ 5,679,257	\$ 21,223,261
Fund Balances							
Reserved for:							
Postage	\$ 712	\$ 799	\$ -	\$ -	\$ -	\$ -	\$ 4,869
Unreserved, Reported in Nonmajor Special Revenue Funds	168,349	567,998	16,282	1,127	66,847	5,679,257	21,218,392
Total Fund Balances	\$ 169,061	\$ 568,797	\$ 16,282	\$ 1,127	\$ 66,847	\$ 5,679,257	\$ 21,223,261

(Concluded)

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

	Special Revenue Funds						
	Livestock Waste Management Fund 2833	Clean Air Title V Fund 2834	Remedial Action Plan Monitoring Fund 2835	Scrap Tire Red/Recycling Incentive Fund 2836	Solid Waste Landfill Closure Fund 2837	Integrated Solid Waste Management Fund 2838	Waste Red/Recycling Incentive Fund 2839
RECEIPTS:							
Federal Grants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24
Sales & Charges	63,500	1,437,221	99,053	720	-	1,549,430	3,485,657
Miscellaneous:							
Loan Principal Repayments							
Investment Interest	12,454	57,721	4,145	-	150,335	169,549	284,018
Donations & Contributions	-	-	-	-	-	-	-
Other Miscellaneous	1,799	3,783	9,931	(26,827)	-	2,376	53,890
TOTAL RECEIPTS	<u>77,753</u>	<u>1,498,725</u>	<u>113,129</u>	<u>(26,107)</u>	<u>150,335</u>	<u>1,721,355</u>	<u>3,823,589</u>
DISBURSEMENTS BY FUNCTION:							
Conservation of Natural Resources	-	1,962,454	-	502	154,933	-	3,230,669
Regulation of Business and Profession	266,460	-	138,823	-	-	1,263,863	-
TOTAL DISBURSEMENTS	<u>266,460</u>	<u>1,962,454</u>	<u>138,823</u>	<u>502</u>	<u>154,933</u>	<u>1,263,863</u>	<u>3,230,669</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(188,707)</u>	<u>(463,729)</u>	<u>(25,694)</u>	<u>(26,609)</u>	<u>(4,598)</u>	<u>457,492</u>	<u>592,920</u>
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	-
Net Distributive Activity	-	-	-	-	-	-	-
Operating Transfers In	250,000	-	-	-	-	-	826
Operating Transfers Out	-	-	-	(826)	(3,934,080)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>(826)</u>	<u>(3,934,080)</u>	<u>-</u>	<u>826</u>
Net Change in Fund Balances	61,293	(463,729)	(25,694)	(27,435)	(3,938,678)	457,492	593,746
FUND BALANCES, JULY 1, 2001	<u>90,238</u>	<u>624,466</u>	<u>95,272</u>	<u>27,435</u>	<u>3,938,682</u>	<u>3,004,196</u>	<u>5,511,130</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 151,531</u>	<u>\$ 160,737</u>	<u>\$ 69,578</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ 3,461,688</u>	<u>\$ 6,104,876</u>

(Continued)

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

	Special Revenue Funds						
	Litter Reduction & Recycling Fund 2840	Environmental Quality Cash Fund 2841	Chemigation Cost Fund 2842	Petroleum & Hazard Storage Handling Fund 2843	Low Level Radioactive Waste Fund 2844	Wastewater Treatment OP Cert Fund 2845	Wastewater Loan Administration Fund 2846
RECEIPTS:							
Federal Grants & Contracts	\$ -	\$ 330,000	\$ -	\$ -	\$ -	\$ -	\$ -
Sales & Charges	1,288,049	62,910	31,399	-	-	45,857	770,412
Miscellaneous:							
Loan Principal Repayments							
Investment Interest	62,576	2,197	3,259	6	-	592	68,733
Donations & Contributions	21	-	-	-	-	-	-
Other Miscellaneous	18,853	-	-	-	-	-	389
TOTAL RECEIPTS	1,369,499	395,107	34,658	6	-	46,449	839,534
DISBURSEMENTS BY FUNCTION:							
Conservation of Natural Resources	1,151,316	-	-	-	-	-	716,294
Regulation of Business and Profession	-	117,626	27,183	-	3,794,297	57,319	-
TOTAL DISBURSEMENTS	1,151,316	117,626	27,183	-	3,794,297	57,319	716,294
Excess (Deficiency) of Receipts Over (Under) Disbursements	218,183	277,481	7,475	6	(3,794,297)	(10,870)	123,240
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	-
Net Distributive Activity	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	3,934,080	-	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	3,934,080	-	-
Net Change in Fund Balances	218,183	277,481	7,475	6	139,783	(10,870)	123,240
FUND BALANCES, JULY 1, 2001	784,667	42,957	55,884	115	542,278	19,551	1,478,361
FUND BALANCES, JUNE 30, 2002	\$ 1,002,850	\$ 320,438	\$ 63,359	\$ 121	\$ 682,061	\$ 8,681	\$ 1,601,601

(Continued)

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

	Special Revenue Funds						
	LLRW Monitoring Community Fund 2847	LLRW Community Improvements Fund 2848	Drinking Water Administration Fund 2863	Low Level Radioactive Waste Fund 4840	Solid Waste Fund 4842	Air Pollution Fund 4843	Indirect Cost Fund 4844
RECEIPTS:							
Federal Grants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ 1,314,408	\$ 1,460,441	\$ 2,634,699
Sales & Charges	-	-	279,000	-	-	-	13,823
Miscellaneous:							
Loan Principal Repayments							
Investment Interest	-	-	17,106	-	1,460	783	53,538
Donations & Contributions	-	-	4,193	-	1,725	-	15
Other Miscellaneous	-	-	-	-	19,427	450	5,229
TOTAL RECEIPTS	-	-	300,299	-	1,337,020	1,461,674	2,707,304
DISBURSEMENTS BY FUNCTION:							
Conservation of Natural Resources	-	-	-	-	1,358,231	1,304,224	2,193,419
Regulation of Business and Profession	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	-	-	-	-	1,358,231	1,304,224	2,193,419
Excess (Deficiency) of Receipts Over (Under) Disbursements	-	-	300,299	-	(21,211)	157,450	513,885
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	4,274
Net Distributive Activity	-	-	-	-	-	-	7
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	4,281
Net Change in Fund Balances	-	-	300,299	-	(21,211)	157,450	518,166
FUND BALANCES, JULY 1, 2001	6,779	23,538	272,072	471,537	41,351	11,611	50,631
FUND BALANCES, JUNE 30, 2002	<u>\$ 6,779</u>	<u>\$ 23,538</u>	<u>\$ 572,371</u>	<u>\$ 471,537</u>	<u>\$ 20,140</u>	<u>\$ 169,061</u>	<u>\$ 568,797</u>

(Continued)

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

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Department of Defense Sites Fund 4845	Hazardous Waste Sites Fund 6845	Leaking Underground Storage Tanks Fund 6846	Drinking Water Fac Loans Fund 6848	
RECEIPTS:					
Federal Grants & Contracts	\$ 98,092	\$ -	\$ -	\$ 183,036	\$ 6,020,700
Sales & Charges	-	-	-	-	9,127,031
Miscellaneous:					
Loan Principal Repayments				640,652	640,652
Investment Interest	284	34	3,321	279,594	1,171,705
Donations & Contributions	-	-	-	-	5,954
Other Miscellaneous	253	-	-	-	89,553
TOTAL RECEIPTS	98,629	34	3,321	1,103,282	17,055,595
DISBURSEMENTS BY FUNCTION:					
Conservation of Natural Resources	82,845	-	-	1,438,341	13,593,228
Regulation of Business and Profession	-	-	-	-	5,665,571
TOTAL DISBURSEMENTS	82,845	-	-	1,438,341	19,258,799
Excess (Deficiency) of Receipts Over (Under) Disbursements	15,784	34	3,321	(335,059)	(2,203,204)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	-	-	-	4,274
Net Distributive Activity	-	-	-	(50,325)	(50,318)
Operating Transfers In	-	-	-	975,284	5,160,190
Operating Transfers Out	-	-	-	(745,842)	(4,680,748)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	179,117	433,398
Net Change in Fund Balances	15,784	34	3,321	(155,942)	(1,769,806)
FUND BALANCES, JULY 1, 2001	498	1,093	63,526	5,835,199	22,993,067
FUND BALANCES, JUNE 30, 2002	\$ 16,282	\$ 1,127	\$ 66,847	\$ 5,679,257	\$ 21,223,261

(Concluded)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF PERFORMANCE MEASURES

Program 163 Landfill Closure Assistance Fund/Operations & Aid

This program's objective is to provide grants for landfill site closing assessment, closure, monitoring, and remediation costs related to landfills existing or already closed on July 15, 1992.

Statistics	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Number of Grants Provided	0	0	0	0	0
Costs	\$ 3,317,367	\$ 486,597	\$ 888,585	\$ 1,350,919	\$ 153,200

Program 513 Environmental Quality/Operations

The objectives of this program are to develop, implement and enforce standards, and programs for the restoration and preservation of the State's land, water, and air quality. The program is divided into three divisions namely the Air & Waste Division, the Water Quality Division, and the Management Services Division.

Statistics	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Scrap Tire Permits	26	6	42	71	63
Integrated Waste Management					
Permitted Facilities	94	91	94	93	98
Air Quality Construction Permits Issued	44	33	39	57	90
NPDES Facilities permitted	52	156	143	112	18
Livestock Waste Control					
Facilities permitted:					
Construction	139	123	60	97	106
State Operating	70	85	97	120	112
Costs	\$ 18,666,565	\$ 20,500,524	\$ 19,585,674	\$ 20,498,936	\$ 31,176,428

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF PERFORMANCE MEASURES

Program 513 Environmental Quality/Aid

The objectives of this program are a) to distribute funds to aid communities in developing and implementing pollution control activities, b) to provide funds for local litter reduction and recycling programs and other solid waste activities, c) to provide funds for cost-share on cleanups of leaking underground storage tanks, and d) to provide nonfederal share for Superfund Cleanups.

Statistics

	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Superfund cleanups	2	2	3	2	2
Title 200 sites receiving reimbursements	63	119	124	219	251
Waste Reduction & Recycling Grants	60	38	68	49	76
Litter Reduction & Recycling Grants	52	47	47	49	54
Costs	\$ 7,121,969	\$ 7,747,022	\$ 7,563,138	\$ 7,255,016	\$ 8,700,787

Program 523 Wastewater Treatment Facilities Construction Loan Program/Aid

The objective of this program is to assist governmental units in the construction of wastewater treatment facilities. The program may also provide grants to communities of 800 population or less which demonstrate serious financial hardship.

	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Number of projects	7	12	16	14	14
Costs	\$ 4,032,003	\$ 7,219,675	\$ 4,955,096	\$ 10,922,417	\$ 12,473,142

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF PERFORMANCE MEASURES

Program 528 Drinking Water State Revolving Fund/Aid

The purpose of the Drinking Water State Revolving Fund is to provide low-interest loans to owners of public water supply systems for construction of these systems. The fund was created to assist public water supply systems in attaining compliance with the Federal Safe Drinking Water Act.

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Costs	\$ -	\$ 935,136	\$ 10,735,282	\$ 12,595,019	\$ 7,613,896

Program 585 Low-Level Disposal Act/Operations

The objective of this program is to administer the Department of Environmental Quality's responsibilities under the Low-Level Radioactive Waste Disposal Act.

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Costs	\$ 4,697,521	\$ 3,574,254	\$ 3,218,455	\$ 2,428,227	\$ 8,324,352

Program 585 Low-Level Disposal Act/Aid

Fees and surcharges assessed against the developer of the low-level radioactive waste disposal site and the members of the Central Interstate Low-Level Radioactive Waste Compact are placed in cash funds for disbursements to local government units impacted by the site selection process.

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Costs	\$ 400,000	\$ 350,000	\$ -	\$ -	\$ -

Due to a lawsuit filed in December of 1998 no disbursements could be made from this program for future periods.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY 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 Environmental Quality as of and for the year ended June 30, 2002, and have issued our report thereon dated July 28, 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 Environmental Quality. 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 Environmental Quality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Environmental Quality in the Comments Section of this report as Comment Number 1 (Capital Assets), Comment Number 2 (Travel Expenses), and Comment Number 3 (Timeliness of Deposits).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Environmental Quality'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 another matter involving the internal control over financial reporting that we have reported to management of the Nebraska Department of Environmental Quality in the Comments Section of this report as Comment Number 1 (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.

Pat Reding, CPA

Assistant Deputy Auditor

July 28, 2003