



STATE OF NEBRASKA

Statewide Single Audit

June 30, 2003



STATE OF NEBRASKA
 Basic Financial Statements and
 OMB Circular A-133 Compliance Reports
 Year ended June 30, 2003

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FINANCIAL SECTION



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2003, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 12.3% and 6.3% of the assets and revenues, respectively, of the aggregate remaining fund information. The Nebraska State Lottery enterprise fund represents 4.5% and 37.4% of the assets and revenues, respectively, of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information and their effects on the business-type activities is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2004 on our consideration of the State of Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 16; the Budgetary Comparison Schedules—General Fund, Cash, Construction, Federal and Revolving Fund Types on pages 48 through 53; the Information About Infrastructure Assets Reported Using the Modified Approach on page 54; and the Schedules of Funding Progress and Three-Year Trend Information on page 45 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements that collectively comprise the State of Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated, in all material respects, in relation to the basic financial statements.

KPMG LLP

Lincoln, Nebraska
June 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented new standards in 2002 required by Governmental Accounting Standards Board (GASB) Statement No. 34 and related statements. Because the State now has two years reported under these new standards, a comparative analysis of government-wide data is available and presented in this analysis.

FINANCIAL HIGHLIGHTS

Government-Wide:

The assets of the State exceeded its liabilities at June 30, 2003 by \$8.2 billion (presented as "net assets" in the CAFR). The majority of the net assets is represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, "unrestricted net assets" was reported as \$149 million, the majority of which is, by statute, to be spent on nursing facilities, medical assistance programs and tobacco prevention and control. The primary government's net expenses exceeded net revenues for 2003 by \$155 million (thus, a reduction in net assets). The reduction in net assets was primarily a result of the national economic slowdown which caused less taxes to be collected.

Fund Level:

General Fund receipts for 2003 were \$238 million below the original budgeted amount. Expenditures were also down \$153 million from the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$143 million in excess expenditures prior to other financing sources (uses) resulting in a negative fund balance on June 30, 2003 of \$17 million. Other governmental funds had \$10 million in excess expenditures prior to other financing sources (uses) reducing such fund balances at June 30, 2003 to \$1,326 million.

The \$193 million of net assets of the Unemployment Compensation Fund represents eighty-nine percent of the proprietary funds. Such fund had a \$27 million decrease in net assets for 2003 due to higher unemployment claims.

Long-term Liabilities:

Long-term liabilities totaled \$630 million at June 30, 2003, an increase of \$159 million from the prior year. Most of these liabilities consist of (1) \$285 million of claims payable for workers' compensation claims, medical excess liability, unemployment compensation claims, employee health insurance claims, among other claims, (2) \$167 million of Medicaid claims, and (3) the calculated amount for vested sick

leave due employees when they retire and accrued vacation, totaling \$ 107 million. Debt related to capital assets totaled \$61 million at June 30, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The *Statement of Net Assets* (page 33) presents all the State's assets and liabilities with the difference between the two reported as "Net Assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* (pages 34 and 35) presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units. Fiduciary Funds, which include the Pension Funds, are not included in the Government-wide Financial Statements.

Primary Government

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

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

surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

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

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

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State’s operations. As previously noted, these Statements are commonly referred to as GAAP Fund Statements, as they are prepared in accordance with generally accepted accounting principles. The Fund Financial Statements (which begin on page 36) provide detailed information about the State’s major funds. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. The State’s funds are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. It is important to note that each of these three fund categories use different accounting approaches and should be analyzed differently.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader can better understand the long-term impact of the State’s near-term financing decisions. To aid the reader in such analysis, reconciliations are provided between the Government-wide Financial Statements and the Governmental Funds Financial Statements (see pages 37 and 39).

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

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Thus, when the State charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds consist of both Enterprise Funds (services provided to outside customers) and Internal Service Funds (services provided to other State agencies). Proprietary funds utilize accrual accounting, the same method used by private businesses. Therefore, the net assets reported in these statements as Enterprise Funds will be identical to the net assets reported in the net assets for business-type activities in the Government-wide Financial Statements. However, because the Internal Service Funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

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

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

Component Units Financial Statements

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements beginning on page 48.

Required Supplementary Information

Following the basic financial statements, and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the fund balances determined by GAAP used in the Fund Financial Statements for the General Fund, Cash Funds, Construction Funds,

Federal Funds, and Revolving Funds. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$9,660 million at June 30, 2003 as compared to \$9,658 at June 30, 2002. As total liabilities only totaled \$1,466 million, net assets amounted to \$8,194 million as of June 30, 2003. As of June 30, 2002, these amounts were \$1,309 million and \$8,349 million, respectively. By far the largest portion of the State of Nebraska's net assets (84 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, etc.). The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and Other						
Non-current Assets	\$ 2,386	\$ 2,543	\$ 311	\$ 317	\$ 2,697	\$ 2,860
Capital Assets	6,956	6,791	7	7	6,963	6,798
Total Assets	9,342	9,334	318	324	9,660	9,658
Non-current Liabilities	560	409	70	62	630	471
Other Liabilities	805	822	31	16	836	838
Total Liabilities	1,365	1,231	101	78	1,466	1,309
Net assets:						
Invested in Capital Assets, Net of Related Debt	6,909	6,749	7	7	6,916	6,756
Restricted	933	1,005	196	223	1,129	1,228
Unrestricted	135	349	14	16	149	365
Total Net Assets	\$ 7,977	\$ 8,103	\$ 217	\$ 246	\$ 8,194	\$ 8,349

The State's non-capital assets represent 28% of the State's total assets and chiefly consist of cash, investments and receivables. It should be noted that \$245 million in 2003 and \$293 million in 2002 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.)

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities). The majority of such liabilities are for claims payable for workers' compensation claims, medical excess liability, unemployment compensation claims, employee health insurance claims, among other claims (\$285 million for 2003 and \$116 million for 2002), Medicaid claims for \$167 million (\$184 million in 2002) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$ 107 million of 2003 (\$98 million for 2002). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 9 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds. Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements).

At the end of June 30, 2003, the State is able to report positive balances in all of the three categories of net assets.

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

Changes in Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year. Following that table is management's analysis of the changes in net assets for 2003, analyzing both the governmental activities and the business-type activities.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 488	\$ 434	\$ 216	\$ 220	\$ 704	\$ 654
Operating Grants and Contributions	1,801	1,784	-	-	1,801	1,784
Capital Grants and Contributions	5	1	-	-	5	1
General Revenues					-	
Taxes	2,960	2,867	-	-	2,960	2,867
Unrestricted Investment Earnings	74	66	17	15	91	81
Miscellaneous	12	10	-	-	12	10
Total Revenues	<u>5,340</u>	<u>5,162</u>	<u>233</u>	<u>235</u>	<u>5,573</u>	<u>5,397</u>
EXPENSES						
General Government	283	124	-	-	283	124
Conservation of Natural Resources	88	100	-	-	88	100
Culture - Recreation	28	24	-	-	28	24
Economic Development and Assistance	84	87	-	-	84	87
Education	1,216	1,173	-	-	1,216	1,173
Higher Education - Colleges and Universities	461	466	-	-	461	466
Health and Social Services	2,220	2,167	-	-	2,220	2,167
Public Safety	238	234	-	-	238	234
Regulation of Business and Professions	117	105	-	-	117	105
Transportation	626	664	-	-	626	664
Intergovernmental	121	127	-	-	121	127
Interest on Long-term Debt	4	3	-	-	4	3
Unemployment Compensation	-	-	161	132	161	132
Lottery	-	-	61	56	61	56
Excess Liability	-	-	14	11	14	11
Cornhusker State Industries	-	-	6	9	6	9
Total Expenses	<u>5,486</u>	<u>5,274</u>	<u>242</u>	<u>208</u>	<u>5,728</u>	<u>5,482</u>
Excess (deficiency) Before Transfers	(146)	(112)	(9)	27	(155)	(85)
Transfers	<u>20</u>	<u>18</u>	<u>(20)</u>	<u>(18)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	(126)	(94)	(29)	9	(155)	(85)
Net Assets - Beg.- Restated 2002	8,103	8,197	246	237	8,349	8,434
Net Assets - Ending	<u>\$ 7,977</u>	<u>\$ 8,103</u>	<u>\$ 217</u>	<u>\$ 246</u>	<u>\$ 8,194</u>	<u>\$ 8,349</u>

Governmental Activities

Governmental activities reduced the State's net assets by \$126 million in 2003 (\$94 million in 2002). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,294 million and were used to partially offset program expenses of \$5,486 million, leaving net expenses of \$3,192 million. Approximately 5% of total expenses were spent on general government expenses. General taxes, transfers and earnings of \$3,066 million were used to cover most of the remaining costs of the programs as shown below.

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	<u>2003</u>	<u>2002</u>
General Government	\$ (194)	\$ (69)
Conservation of Natural Resources	(23)	(30)
Culture - Recreation	(9)	(4)
Economic Development and Assistance	(22)	(24)
Education	(958)	(940)
Higher Education - Colleges and University	(461)	(466)
Health and Social Services	(896)	(790)
Public Safety	(173)	(175)
Regulation of Business and Professions	(2)	(60)
Transportation	(343)	(367)
Intergovernmental	(107)	(127)
Interest on Long-Term Debt	(4)	(3)
Subtotal	<u>(3,192)</u>	<u>(3,055)</u>
General Revenues		
Taxes	2,960	2,867
Unrestricted Investment Earnings	74	66
Miscellaneous	12	10
Transfers	20	18
Increase (Decrease) in Net Assets	<u>\$ (126)</u>	<u>\$ (94)</u>

Business-type Activities

The business-type activities reduced the State's net assets by \$29 million for 2003 after a \$20 million transfer to the governmental activities. Most of the \$216 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Compensation Fund; such fund had an operating loss of \$37 million in 2003. Lottery revenue of \$81 million generated net revenue of \$19 million. An additional \$17 million in investment income also helped offset the increased expenditures incurred for unemployment compensation claims and excess liability claims.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be restricted or unrestricted. If they are restricted, they are unreserved only as long as they are used for the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in restricted funds.) At the end of 2003, the State's Governmental Funds reported combined ending fund balances of \$1,309 million. The total unreserved balances amounted to \$976 million.

General Fund

The General Fund is the chief operating fund of the State. The major General Fund liability was the estimated tax refunds payable (\$240 million). Such refunds exceeded the expected taxes owed the State by \$3 million. Other liabilities of the General Fund exceeded the assets available to pay such liabilities by \$14 million.

On June 30, 2002, the General Fund had an \$81 million fund balance. As 2003 unfolded, significant reduction in spending was required due to the lower than anticipated revenues due to the slow economy. Even though spending was cut, the reduced revenue, coupled with other changes in reserves for certain liabilities and receivables, caused the General Fund balance to decrease by \$98 million, ending with a negative fund balance of \$17 million.

Revenues in 2003 were less than anticipated chiefly due to (1) lower corporate income taxes because companies were less profitable, (2) lower individual income taxes resulting from lower reportable capital gains and lower revenues by farmers and small business owners, and (3) lower sales taxes collected because of lower retail sales. Expenditures were less than budgeted due to a concerted effort by agency heads responding to the Governor's message to be conservative in spending in addition to mandated cuts.

While tax receipts were less than anticipated, overall 2003 tax receipts were up \$144 million over 2002 because of an expanded sales tax base to include many services, a ½ cent increase in the sales tax rate and a 30 cent per pack increase in cigarette taxes, all designed to bolster tax receipts. The increase in these tax receipts more than offset a \$16 million reduction in income tax receipts.

For the past two years the revenues of the State have been less than projected. To compensate for downturns such as this, within the General Fund, the State has maintained a Cash Reserve Fund, which is to be used when revenues are not sufficient to meet General Fund expenditures. Such reserve was at \$110 million at the end of 2002. During 2003, a significant increase in the cigarette tax increased the Cash Reserve Fund by almost \$23 million and \$14 million was received from the increase in sales tax on motor vehicles. An additional \$29 million was received from the federal government to help offset the State's economic losses. However, due to legislative mandated transfers and transfers to the General Fund to make up for lagging revenues totaling \$117 million, this balance was reduced to \$59 million at the end of 2003.

Expenditures in 2003 in the General Fund, while much less than budgeted, were still up \$61 million over 2002, chiefly due to spending for increased aid to K-12 schools (\$15 million), increased Medicaid costs (\$35 million), and workers' compensation claims (\$8 million).

An additional \$30 million was transferred to the General Fund from other funds. Fourteen million came from the Highway Fund from the increased sales tax collected on new vehicles as a result of the ½ cent sales tax hike and the other significant increase was \$10 million in additional license fees. These, when coupled with \$18 million less in capital construction project costs and other items caused income from net transfers to increase \$48 million.

Other Governmental Funds

Other governmental fund balances totaled \$1,326 million at June 30, 2003; \$333 million of such funds is reserved to indicate such funds are not available for new spending because such funds (1) are represented by endowment principal (\$156 million), which means the funds cannot be spent, (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$160 million), (3) have been expended for other assets, chiefly inventories (\$10 million) and thus the funds are not available, or (4) have been committed for debt service (\$7 million).

Of the non-General Fund unreserved fund balances of \$993 million, \$179 million represents permanent school funds which can be used only for support of public schools. \$765 million is represented by special revenue funds which while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered "restricted" on the government-wide financial statements). Nineteen million is represented by other permanent funds, which again normally must be spent within the confines of the fund. Thirty million dollars are in the Capital Projects Fund, which, while unreserved, must be spent on a capital projects.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of \$414 million. Of this balance, \$400 million is classified as unreserved, but which are restricted in the government-wide statements in that the funds are unreserved only within the confines of such funds.

Governmental funds other than the General Fund saw a decrease in fund balances of \$29 million. Fund balance decreases in the Highway Fund (\$27 million), the Federal Fund (\$15 million) and the Health and Social Service Fund (\$27 million) were somewhat offset by increases in the Permanent School Fund (\$20 million and other Nonmajor Funds (\$20 million).

The Highway Fund had \$7 million less in federal grants and \$10 million less in sales tax revenues, after a transfer of \$14 million to the General Fund. This, along with \$10 million more in operating expenses (only a 1% increase), caused the \$27 million reduction in fund balance from the prior year.

The Federal Fund had a \$15 million increase in educational expenses; as such, net revenue decreased from the prior year by that amount.

The Health and Social Services Fund had an increase in investment income of \$7 million, but a reduction of \$11 million in IGT funds, a \$26 million increase in expenditures due to audit accruals, and increased Medicaid expenses, among other changes, resulted in a \$58 million reduction in net revenues. Since 2002 had net revenues of \$31 million, the fund balance was reduced by \$27 million.

The Permanent School Funds had a \$21 million improvement of investment earnings, earning about 5% in 2003 (whereas 2002 was a down market year) which was the main reason the fund balances increased \$20 million. Other costs and revenues remained relatively stable.

The Nonmajor Funds were mostly stable from 2002, with \$30 million of increased revenues from miscellaneous taxes, rents and other revenue. However, \$26 million of less transfers, no bond proceeds in 2003 (a \$14 million reduction) and other changes resulted in a \$13 million smaller increase in fund balances from the prior year.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets increased \$209 million to \$5,525 million in 2003 due primarily to the recovering market in 2003 as opposed to the declining market in 2002 which saw the value of investments showing a \$431 million loss. Investment income in 2003 was \$103 million versus \$132 million in 2002, due to the slide in interest rates in 2003. Contributions to the plan exceeded benefits, refunds and related administrative expenses by \$46 million. In another trust fund, \$188 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in this Plan now total \$405 million.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements under Business-type Activities, but in more detail. The State's one major proprietary fund, the Unemployment Compensation Fund, had reported net assets of \$193 million at the end of 2003. This fund's net assets decreased \$27 million in 2003, due to unemployment claims paid out, which increased \$28 million over 2002. Other proprietary or enterprise funds – the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$17 million prior to an \$20 million transfer from the Lottery to governmental funds primarily for education and environmental studies.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

The State continued to see the results of the national economic slowdown. Forecasted revenues, upon which the State's budgeted expenses were based, had anticipated a quicker end to the 2001 recession. As a result, the State did not realize the projected revenues of \$2,684 million, but instead only collected \$2,446 million, a shortfall of \$238 million. Because the revenues did not come in as expected, the State's Forecasting Board continually made new forecasts, each time reducing the expected revenues. As a result, the final budget for expenditures (which is set long before the year unfolds) was \$189 million higher than the revised revenue forecasts. To solve this problem, the Governor and the Legislature had to find ways to make up this difference. Agencies were encouraged to spend less than their appropriations and the State Budget Office also helped control spending by reducing the allotments provided to agencies, which was less than their appropriations. The allotment reductions were generally across the board reductions. General fund spending ended up \$94 million less than the appropriated amount. This reduction, when coupled with an infusion of \$42 million of increased transfers, allowed the State to finish 2003 with only \$102 million of expenditures in excess of revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the State had invested \$7.0 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation for 2003 totaled \$43 million, compared to \$40 million for 2002.

CAPITAL ASSETS AS OF JUNE 30 (net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	\$ 458	\$ 438	\$ -	\$ -	\$ 458	\$ 438
Buildings and Equipment	359	342	7	7	366	349
Infrastructure	6,082	5,981	-	-	6,082	5,981
Subtotal	6,899	6,761	7	7	6,906	6,768
Construction in Progress	57	30	-	-	57	30
Total	\$ 6,956	\$ 6,791	\$ 7	\$ 7	\$ 6,963	\$ 6,798

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

The State has consistently maintained a high level of the assessed condition of roads over the past five years. The State's goal is to maintain at least an overall system rating of 72 percent or above. The most recent condition assessment, completed for calendar year 2002, indicated an overall system rating of 83%, a 1% drop in the same rating from the prior two years.

For 2003 and 2004, it was estimated that the State needed to spend \$174 million and \$179 million, respectively, to preserve and maintain the roads at the abovementioned level. The State actually spent \$221 million on roads in 2003, compared to \$194 million in 2002.

During 2003, the State added \$64 million of new depreciable capital assets. The State spent \$120 million on infrastructure and land purchases in 2003, most notably reconstructing (a) Interstate 80 in and around Omaha, Nebraska, (b) Highway 275 around Waterloo, (c) Highway 30 east of Columbus and (d) Highway 6 on the west side of Omaha. This compares to \$89 million spent in 2002. Twenty-eight million of governmental funds were spent on capital projects in 2003 compared to twenty-six million in 2002. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project.

At June 30, 2003, the State had contractual commitments of \$546 million of non-General Funds for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the basic financial statements.)

The State's General Fund capital outlay budget authorized spending \$20 million on capital projects in 2004, in addition to \$5 million of unspent capital outlay authorizations that existed on June 30, 2003.

Long-Term Debt

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

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

	GOVERNMENTAL ACTIVITIES	
	2003	2002
<u>Bonds Payable:</u>		
Nebraska State Building Corporation	\$ 4	\$ 4
NETC Leasing Corp	27	29
	31	33
 <u>Capitalized Leases:</u>		
	\$ 30	\$ 32

The NETC Leasing Corporation issued \$10 million of new bonds in 2002 to finance additional educational television facilities. These are being repaid on a timely basis. There were no new bonds issued in 2003. In 2002, an \$18 million lease was signed to help finance the State's new \$29 million Nebraska Information System, which was implemented in 2003. Such system provides new electronic processing for accounting, human resources/payroll, inventory, grants management and budget. There was only one small capitalized lease added in 2003, which was more than offset by debit repayments. Bonds and Certificates of Participation for leases issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's.

FACTORS THAT WILL AFFECT THE FUTURE

Revenues for the State's fiscal year ending June 30, 2004 will increase, as net general tax revenues are expected to increase approximately \$250 million over 2003, a 10% increase. Much of the increase is due to a 14% increase in income tax receipts, as capital gain losses have decreased significantly and Nebraska farm income has greatly improved and the economy has begun a slow turnaround. The ½ cent increase in the sales tax rate has been made permanent. The permanent increase in cigarette taxes will also continue to boost the State's cash position. Furthermore, in 2004 the State received another \$29 million from federal funds to help offset sagging revenues.

To help offset any future economic downturns, the State maintains a cash reserve fund. As of June 30, 2003, this fund had a \$59 million balance. Factors affecting the June 30, 2004 Cash Reserve Fund balance include the \$29 million federal funds received, legislative mandated net transfers to the General

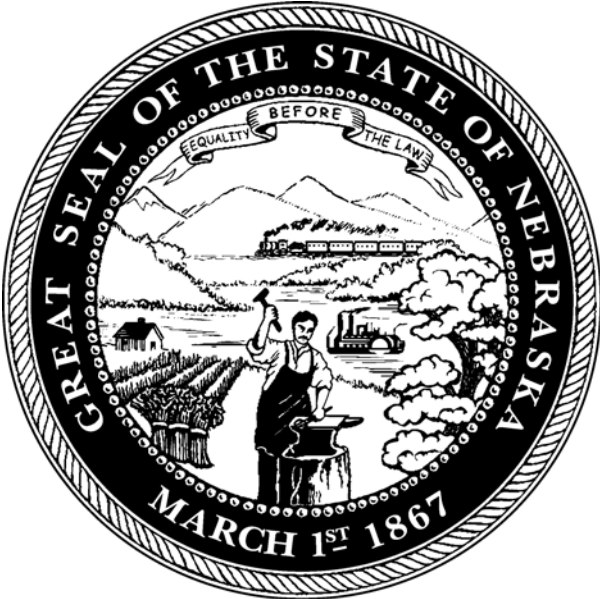
Fund of \$32 million, and revenues from cigarette taxes of approximately \$29 million. The June 30, 2005 Cash Reserve Fund balance will be affected by legislative mandated transfers to the General Fund of \$27 million and cigarette tax receipts of only three months as opposed to twelve months in prior years.

CONTACTING THE STATE ACCOUNTING OFFICE

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

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

BASIC FINANCIAL STATEMENTS



State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2003

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 259,671	\$ 173,801	\$ 433,472	\$ 187,330
Receivables, net of allowance				
Taxes	279,526	-	279,526	-
Due from Federal Government	219,447	-	219,447	-
Other	61,296	27,371	88,667	93,461
Internal Balances	656	(656)	-	-
Due from Primary Government	-	-	-	1,349
Investments	1,128,113	87,655	1,215,768	234,015
Loans Receivable	160,485	-	160,485	37,631
Investment in Joint Venture	-	-	-	131,516
Other Assets	16,483	1,624	18,107	44,432
Restricted Assets:				
Cash and Cash Equivalents	34,377	-	34,377	250,841
Other	-	2,470	2,470	3,077
Securities Lending Collateral	225,760	19,153	244,913	-
Capital assets:				
Land	458,170	-	458,170	45,628
Infrastructure	6,081,847	-	6,081,847	85,076
Construction in Progress	57,201	-	57,201	121,561
Buildings and Equipment	741,040	10,303	751,343	1,273,530
Less Accumulated Depreciation	(382,499)	(3,740)	(386,239)	(521,224)
Total Capital Assets, net of depreciation	<u>6,955,759</u>	<u>6,563</u>	<u>6,962,322</u>	<u>1,004,571</u>
Total Assets	<u>\$ 9,341,573</u>	<u>\$ 317,981</u>	<u>\$ 9,659,554</u>	<u>\$ 1,988,223</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 292,400	\$ 8,464	\$ 300,864	\$ 76,837
Tax Refunds Payable	246,165	-	246,165	-
Due to Other Governments	18,006	-	18,006	-
Deposits	6,917	-	6,917	354
Due to Component Units	1,349	-	1,349	-
Deferred Revenue	13,540	3,990	17,530	66,939
Obligations under Securities Lending	225,760	19,153	244,913	-
Noncurrent Liabilities:				
Due within one year	210,044	31,341	241,385	38,474
Due in more than one year	350,418	38,310	388,728	330,359
Total Liabilities	<u>\$ 1,364,599</u>	<u>\$ 101,258</u>	<u>\$ 1,465,857</u>	<u>\$ 512,963</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 6,909,470	\$ 6,563	\$ 6,916,033	\$ 680,072
Restricted for:				
Education	9,657	-	9,657	109,879
Health and Social Services	13,408	-	13,408	-
Transportation	127,638	-	127,638	-
Licensing and Regulation	129,061	-	129,061	-
Other Purposes	293,667	2,470	296,137	321,689
Unemployment Compensation Benefits	-	193,332	193,332	-
Debt Service and Construction	6,344	-	6,344	154,976
Permanent Trusts:				
Nonexpendable	155,672	-	155,672	-
Expendable	197,586	-	197,586	-
Unrestricted	134,471	14,358	148,829	208,644
Total Net Assets	<u>\$ 7,976,974</u>	<u>\$ 216,723</u>	<u>\$ 8,193,697</u>	<u>\$ 1,475,260</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 283,413	\$ 43,364	\$ 46,417	\$ -
Conservation of Natural Resources	87,746	27,644	37,261	-
Culture – Recreation	28,083	16,441	2,355	-
Economic Development and Assistance	83,974	2,221	59,386	-
Education	1,215,793	34,810	219,120	3,971
Higher Education - Colleges and University	461,325	-	-	-
Health and Social Services	2,219,649	130,487	1,191,751	1,383
Public Safety	237,538	23,275	41,017	-
Regulation of Business and Professions	117,235	112,754	2,120	-
Transportation	626,550	82,414	201,596	-
Intergovernmental	121,269	14,133	-	-
Interest on Long-term Debt	3,808	-	-	-
Total governmental activities	<u>5,486,383</u>	<u>487,543</u>	<u>1,801,023</u>	<u>5,354</u>
Business-type activities:				
Unemployment Compensation	160,664	123,393	-	-
Lottery	61,455	80,919	-	-
Excess Liability	13,796	6,686	-	-
Cornhusker State Industries	6,103	5,196	-	-
Total business-type activities	<u>242,018</u>	<u>216,194</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,728,401</u>	<u>\$ 703,737</u>	<u>\$ 1,801,023</u>	<u>\$ 5,354</u>
COMPONENT UNITS:				
University of Nebraska	\$ 1,219,153	\$ 450,827	\$ 310,801	\$ 27,075
State Colleges	66,324	20,063	7,163	-
Total Component Units	<u>\$ 1,285,477</u>	<u>\$ 470,890</u>	<u>\$ 317,964</u>	<u>\$ 27,075</u>

General revenues:

Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal

Transfers

Total General Revenues and Transfers

Change in Net Assets Before Change in Accounting Principle

Cumulative Effect of Change in Accounting Principle

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (193,632)	\$ -	\$ (193,632)	\$ -
(22,841)	-	(22,841)	-
(9,287)	-	(9,287)	-
(22,367)	-	(22,367)	-
(957,892)	-	(957,892)	-
(461,325)	-	(461,325)	-
(896,028)	-	(896,028)	-
(173,246)	-	(173,246)	-
(2,361)	-	(2,361)	-
(342,540)	-	(342,540)	-
(107,136)	-	(107,136)	-
(3,808)	-	(3,808)	-
<u>(3,192,463)</u>	<u>-</u>	<u>(3,192,463)</u>	<u>-</u>
-	(37,271)	(37,271)	-
-	19,464	19,464	-
-	(7,110)	(7,110)	-
-	(907)	(907)	-
<u>-</u>	<u>(25,824)</u>	<u>(25,824)</u>	<u>-</u>
<u>-</u>	<u>(25,824)</u>	<u>(3,218,287)</u>	<u>-</u>
-	-	-	(430,450)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,098)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(469,548)</u>
1,236,845	-	1,236,845	-
1,218,045	-	1,218,045	-
311,198	-	311,198	-
108,788	-	108,788	-
59,490	-	59,490	-
25,187	-	25,187	-
73,888	16,679	90,567	5,061
-	-	-	73,683
-	-	-	461,325
12,395	-	12,395	-
20,230	(20,230)	-	-
<u>3,066,066</u>	<u>(3,551)</u>	<u>3,062,515</u>	<u>540,069</u>
(126,397)	(29,375)	(155,772)	70,521
-	-	-	(15,572)
(126,397)	(29,375)	(155,772)	54,949
<u>8,103,371</u>	<u>246,098</u>	<u>8,349,469</u>	<u>1,420,311</u>
<u>\$ 7,976,974</u>	<u>\$ 216,723</u>	<u>\$ 8,193,697</u>	<u>\$ 1,475,260</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 48,623	\$ 20,399	\$ 36,971	\$ 22,010	\$ 8,366	\$ 59,575	\$ 195,944
Cash on Deposit with Fiscal Agents	-	-	-	-	-	34,377	34,377
Investments	70,295	110,558	2,833	274,224	309,456	360,747	1,128,113
Securities Lending Collateral	20,089	31,595	1,719	37,609	37,350	97,398	225,760
Receivables, net of allowance							
Taxes	236,696	42,543	-	-	-	287	279,526
Due from Federal Government	-	8,253	211,193	-	-	-	219,446
Loans	223	-	2,178	1,463	-	156,621	160,485
Other	12,674	10,105	23,454	2,887	1,669	9,281	60,070
Due from Other Funds	89,506	525	504	8,596	-	3,673	102,804
Inventories	-	8,970	3,682	997	-	-	13,649
Prepaid Items	51	10	289	3	-	120	473
Other	259	-	-	-	-	655	914
TOTAL ASSETS	\$ 478,416	\$ 232,958	\$ 282,823	\$ 347,789	\$ 356,841	\$ 722,734	\$ 2,421,561
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 85,196	\$ 56,249	\$ 68,979	\$ 35,485	\$ 132	\$ 17,023	\$ 263,064
Tax Refunds Payable	239,930	6,235	-	-	-	-	246,165
Due to Other Governments	7,211	10,586	-	-	-	\$ 209	18,006
Deposits	260	610	3,703	152	80	2,112	6,917
Due to Other Funds	55,105	45	99,097	187	836	8,576	163,846
Due to Component Units	1,349	-	-	-	-	-	1,349
Obligations under Securities Lending	20,089	31,595	1,719	37,609	37,350	97,398	225,760
Claims Payable	74,018	-	90,130	-	-	-	164,148
Deferred Revenue	12,303	-	7,574	-	3,320	-	23,197
TOTAL LIABILITIES	495,461	105,320	271,202	73,433	41,718	125,318	1,112,452
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	223	-	2,178	1,463	-	156,621	160,485
Inventories and Prepaid Items	51	8,980	289	1,000	-	120	10,440
Debt Service	-	-	-	-	-	6,905	6,905
Endowment Principal	-	-	-	-	136,111	19,561	155,672
Unreserved, reported in:							
General Fund	(17,319)	-	-	-	-	-	(17,319)
Special Revenue Funds	-	118,658	9,154	271,893	-	365,605	765,310
Permanent Funds	-	-	-	-	179,012	18,574	197,586
Capital Projects Fund	-	-	-	-	-	30,030	30,030
TOTAL FUND BALANCES	(17,045)	127,638	11,621	274,356	315,123	597,416	1,309,109
TOTAL LIABILITIES AND FUND BALANCES	\$ 478,416	\$ 232,958	\$ 282,823	\$ 347,789	\$ 356,841	\$ 722,734	\$ 2,421,561

State of Nebraska

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

June 30, 2003

Total fund balances for governmental funds \$ 1,309,109

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

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

Land	458,170	
Infrastructure	6,081,847	
Construction in progress	57,201	
Other capital assets	683,391	
Accumulated depreciation	<u>(344,808)</u>	6,935,801

Certain tax revenues are earned but not available and therefore are deferred in the funds. 9,951

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 44,100

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

Bonds payable	(30,960)	
Accrued interest on bonds	(561)	
Capital leases	(23,424)	
Obligations under other financing arrangements	(10,555)	
Compensated absences	(101,533)	
Claims and judgments	<u>(154,954)</u>	<u>(321,987)</u>

Net assets of governmental activities \$ 7,976,974

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

State of Nebraska

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

For the Year Ended June 30, 2003

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$ 1,237,075	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,237,075
Sales and Use Taxes	1,057,925	155,789	-	-	-	1,907	1,215,621
Petroleum Taxes	6,529	290,228	-	-	1,312	13,129	311,198
Excise Taxes	66,292	-	-	4,965	-	35,970	107,227
Business and Franchise Taxes	39,321	-	-	-	-	20,169	59,490
Other Taxes	17,234	3,153	-	-	-	4,800	25,187
Federal Grants and Contracts	30,310	184,072	1,553,052	331	-	38,612	1,806,377
Licenses, Fees and Permits	18,935	66,846	120	3,153	791	87,472	177,317
Charges for Services	3,390	12,687	11,978	23,823	-	22,592	74,470
Investment Income	9,843	6,389	2,238	11,556	16,067	25,132	71,225
Rents and Royalties	7	310	113	199	22,320	21,612	44,561
Surcharge	-	-	-	-	-	60,270	60,270
Other	2,105	3,730	7,121	83,958	11,958	27,006	135,878
TOTAL REVENUES	2,488,966	723,204	1,574,622	127,985	52,448	358,671	5,325,896
EXPENDITURES:							
Current:							
General Government	108,745	-	4,203	-	-	18,494	131,442
Conservation of Natural Resources	29,239	-	20,527	-	-	38,950	88,716
Culture – Recreation	5,646	-	2,215	-	-	18,983	26,844
Economic Development and Assistance	6,414	-	60,581	-	-	16,383	83,378
Education	925,898	-	224,194	-	32,469	25,485	1,208,046
Higher Education - Colleges and University	446,970	-	-	-	-	14,355	461,325
Health and Social Services	834,779	-	1,227,055	154,986	-	2,334	2,219,154
Public Safety	171,117	-	39,431	-	-	25,729	236,277
Regulation of Business and Professions	3,012	-	1,058	-	-	112,490	116,560
Transportation	438	732,648	-	-	-	19,724	752,810
Intergovernmental	100,082	-	-	-	-	20,706	120,788
Capital Projects	-	-	-	-	-	27,773	27,773
Debt Service:							
Principal	-	-	-	-	-	3,830	3,830
Interest	-	-	-	-	-	1,934	1,934
TOTAL EXPENDITURES	2,632,340	732,648	1,579,264	154,986	32,469	347,170	5,478,877
Excess of Revenues Over (Under) Expenditures	(143,374)	(9,444)	(4,642)	(27,001)	19,979	11,501	(152,981)
OTHER FINANCING SOURCES (USES):							
Transfers In	74,091	2,058	-	747	-	70,929	147,825
Transfers Out	(28,490)	(19,352)	(10,866)	(800)	-	(67,213)	(126,721)
Proceeds from Other Financing Arrangements	-	-	-	-	-	4,950	4,950
Proceeds from Capital Leases	29	-	34	-	-	-	63
TOTAL OTHER FINANCING SOURCES (USES)	45,630	(17,294)	(10,832)	(53)	-	8,666	26,117

State of Nebraska

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

For the Year Ended June 30, 2003

Net change in fund balances—total governmental funds \$ (126,864)

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

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

Capital outlay, net of gains or losses	203,465	
Depreciation expense	<u>(37,457)</u>	166,008

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

Other financing arrangements	<u>(4,950)</u>	(4,950)
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Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (63)

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

Bond principal retirement	2,250	
Other financing arrangement payments	1,580	
Capital lease payments	<u>544</u>	4,374

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. (13,463)

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year. 2,194

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

Increase in accrued interest	(14)	
Increase in compensated absences	(8,183)	
Increase in claims and judgments	<u>(145,436)</u>	<u>(153,633)</u>

Change in net assets of governmental activities \$ (126,397)

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

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2003

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 154,978	\$ 18,823	\$ 173,801	\$ 64,399
Receivables, net of allowance	22,273	5,098	27,371	1,181
Due from Other Funds	-	424	424	44,467
Inventories	-	1,281	1,281	205
Prepaid Items	-	343	343	1,242
TOTAL CURRENT ASSETS	177,251	25,969	203,220	111,494
RESTRICTED ASSETS:				
Long-Term Deposits	-	2,470	2,470	-
NONCURRENT ASSETS:				
Long-Term Investments	38,558	49,097	87,655	-
Securities Lending Collateral	11,019	8,134	19,153	-
Capital Assets:				
Buildings and Equipment	162	10,141	10,303	57,649
Less Accumulated Depreciation	(141)	(3,599)	(3,740)	(37,691)
Total Capital Assets, net	21	6,542	6,563	19,958
TOTAL NONCURRENT ASSETS	49,598	63,773	113,371	19,958
TOTAL ASSETS	\$ 226,849	\$ 92,212	\$ 319,061	\$ 131,452
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 3,243	\$ 5,221	\$ 8,464	\$ 10,563
Due to Other Funds	-	1,080	1,080	1,608
Capital Lease Obligations	-	-	-	2,514
Claims, Judgments and Compensated Absences	19,183	12,158	31,341	23,520
Deferred Revenue	-	3,990	3,990	293
TOTAL CURRENT LIABILITIES	22,426	22,449	44,875	38,498
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	3,898
Claims, Judgments and Compensated Absences	51	38,259	38,310	44,956
Obligations under Securities Lending	11,019	8,134	19,153	-
TOTAL NONCURRENT LIABILITIES	11,070	46,393	57,463	48,854
TOTAL LIABILITIES	33,496	68,842	102,338	87,352
NET ASSETS:				
Invested in Capital Assets, net of related debt	21	6,542	6,563	13,546
Restricted for:				
Lottery Prizes, Noncurrent	-	2,470	2,470	-
Unemployment Compensation Benefits	193,332	-	193,332	-
Unrestricted	-	14,358	14,358	30,554
TOTAL NET ASSETS	193,353	23,370	216,723	44,100
TOTAL LIABILITIES AND NET ASSETS	\$ 226,849	\$ 92,212	\$ 319,061	\$ 131,452

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

State of Nebraska

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

For the Year Ended June 30, 2003

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Charges for Services	\$ 123,393	\$ 92,801	\$ 216,194	\$ 253,652
Other	-	-	-	2,722
TOTAL OPERATING REVENUES	<u>123,393</u>	<u>92,801</u>	<u>216,194</u>	<u>256,374</u>
OPERATING EXPENSES:				
Personal Services	67	3,790	3,857	36,832
Services and Supplies	212	20,410	20,622	99,015
Lottery Prizes	-	42,984	42,984	-
Unemployment Claims	160,380	-	160,380	-
Insurance Claims	-	13,463	13,463	129,820
Depreciation	5	707	712	5,512
TOTAL OPERATING EXPENSES	<u>160,664</u>	<u>81,354</u>	<u>242,018</u>	<u>271,179</u>
Operating Income (Loss)	<u>(37,271)</u>	<u>11,447</u>	<u>(25,824)</u>	<u>(14,805)</u>
NONOPERATING REVENUES (EXPENSES):				
Investment Income	10,522	6,157	16,679	2,663
Gain (Loss) on Sale of Capital Assets	-	-	-	(1,023)
Other	-	-	-	576
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>10,522</u>	<u>6,157</u>	<u>16,679</u>	<u>2,216</u>
Income (Loss) Before Transfers	(26,749)	17,604	(9,145)	(12,589)
Transfers Out	-	(20,230)	(20,230)	(874)
Change in Net Assets	(26,749)	(2,626)	(29,375)	(13,463)
NET ASSETS, JULY 1	<u>220,102</u>	<u>25,996</u>	<u>246,098</u>	<u>57,563</u>
NET ASSETS, JUNE 30	<u>\$ 193,353</u>	<u>\$ 23,370</u>	<u>\$ 216,723</u>	<u>\$ 44,100</u>

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 119,264	\$ 88,934	\$ 208,198	\$ 10,309
Cash Received from Interfund Charges	-	5,066	5,066	239,205
Cash Paid to Employees	(64)	(3,811)	(3,875)	(36,248)
Cash Paid to Suppliers	(274)	(17,902)	(18,176)	(77,135)
Cash Paid for Lottery Prizes	-	(43,053)	(43,053)	-
Cash Paid for Insurance Claims	(157,475)	(7,963)	(165,438)	(118,817)
Cash Paid for Interfund Services	(10)	(1,275)	(1,285)	(16,733)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(38,559)</u>	<u>19,996</u>	<u>(18,563)</u>	<u>581</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cigarette Tax Proceeds	-	-	-	1,561
Transfers Out	-	(20,099)	(20,099)	(874)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(20,099)</u>	<u>(20,099)</u>	<u>687</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(281)	(281)	(6,304)
Proceeds from Sale of Capital Assets	-	-	-	2,628
Principal Paid on Capital Leases	-	-	-	(3,150)
Interest Paid on Capital Leases	-	-	-	(985)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(281)</u>	<u>(281)</u>	<u>(7,811)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(38,558)	(165,163)	(203,721)	-
Proceeds from Sale of Investment Securities	-	165,910	165,910	-
Interest and Dividend Income	10,827	6,154	16,981	3,109
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(27,731)</u>	<u>6,901</u>	<u>(20,830)</u>	<u>3,109</u>
NET INCREASE (DECREASE) IN CASH	(66,290)	6,517	(59,773)	(3,434)
CASH AND CASH EQUIVALENTS, JULY 1	<u>221,268</u>	<u>12,306</u>	<u>233,574</u>	<u>67,833</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 154,978</u>	<u>\$ 18,823</u>	<u>\$ 173,801</u>	<u>\$ 64,399</u>

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2003

(Dollars in Thousands)	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL</u>
	<u>UNEMPLOYMENT</u>	<u>NON-MAJOR</u>		<u>ACTIVITIES -</u>
	<u>COMPENSATION</u>	<u>ENTERPRISE</u>	<u>TOTALS</u>	<u>INTERNAL</u>
		<u>FUNDS</u>		<u>SERVICE</u>
				<u>FUNDS</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH				
FLOW FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	<u>\$ (37,271)</u>	<u>\$ 11,447</u>	<u>\$ (25,824)</u>	<u>\$ (14,805)</u>
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	5	707	712	5,512
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(4,129)	(675)	(4,804)	(332)
(Increase) Decrease in Due from Other Funds	-	431	431	(6,514)
(Increase) Decrease in Inventories	-	275	275	54
(Increase) Decrease in Prepaid Items	-	(11)	(11)	(198)
(Increase) Decrease in Long-Term Deposits	-	(12)	(12)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(69)	894	825	5,053
Increase (Decrease) in Due to Other Funds	-	(3)	(3)	825
Increase (Decrease) in Claims Payable	2,905	5,500	8,405	11,003
Increase (Decrease) in Deferred Revenue		1,443	1,443	(17)
Total Adjustments	<u>(1,288)</u>	<u>8,549</u>	<u>7,261</u>	<u>15,386</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ (38,559)</u></u>	<u><u>\$ 19,996</u></u>	<u><u>\$ (18,563)</u></u>	<u><u>\$ 581</u></u>

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 1,582
Change in Fair Value of Investments	-	1,164	1,164	-
Total Noncash Transactions	<u>\$ -</u>	<u>\$ 1,164</u>	<u>\$ 1,164</u>	<u>\$ 1,582</u>

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS:			
Cash and Cash Equivalents	\$ 3,300	\$ 16,905	\$ 83,394
Investments:			
U.S. Government Securities	647,438	-	-
Corporate Bonds	478,371	-	-
Equity Securities	965,624	-	-
Foreign Government Securities	38,238	-	-
Municipal Bonds	8,167	-	-
Pooled Investment Contracts	980,651	-	-
Mutual Funds	<u>2,361,443</u>	<u>404,813</u>	<u>-</u>
Total Investments	5,479,932	404,813	-
Securities Lending Collateral	319,095	-	-
Receivables:			
Contributions	14,642	-	-
Interest and Dividends	15,337	149	379
Other	<u>-</u>	<u>2</u>	<u>576</u>
Total Receivables	29,979	151	955
Due from Other Funds	18,045	836	3
Capital Assets:			
Buildings and Equipment	9,044	-	-
Less Accumulated Depreciation	<u>(2,013)</u>	<u>-</u>	<u>-</u>
Total Capital Assets, net	<u>7,031</u>	<u>-</u>	<u>-</u>
Other Assets	<u>-</u>	<u>3,006</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,857,382</u>	<u>\$ 425,711</u>	<u>\$ 84,352</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 5,298	\$ 11,344	13,707
Due to Other Governments	-	-	45,094
Deposits	-	740	-
Due to Other Funds	40	5	-
Obligations under Securities Lending	319,095	-	-
Capital Lease Obligations	8,000	-	-
Accrued Compensated Absences	234	-	-
Other Liabilities	<u>-</u>	<u>-</u>	<u>25,551</u>
TOTAL LIABILITIES	<u>332,667</u>	<u>12,089</u>	<u>84,352</u>
NET ASSETS:			
Held in Trust for:			
Pension Benefits	5,524,715	-	-
Other Purposes	<u>-</u>	<u>413,622</u>	<u>-</u>
TOTAL NET ASSETS	<u>5,524,715</u>	<u>413,622</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,857,382</u>	<u>\$ 425,711</u>	<u>\$ 84,352</u>

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

State of Nebraska

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2003

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 122,200	\$ 188,494
Client Contributions	-	145
State Contributions	49,646	-
Political Subdivision Contributions	98,243	-
Court Fees	579	-
Total Contributions	<u>270,668</u>	<u>188,639</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	68,675	22,191
Interest and Dividend Income	102,700	649
Securities Lending Income	7,671	-
Total Investment Income	<u>179,046</u>	<u>22,840</u>
Investment Expenses	10,363	797
Securities Lending Expenses	6,059	-
Total Investment Expense	<u>16,422</u>	<u>797</u>
Net Investment Income	<u>162,624</u>	<u>22,043</u>
Escheat Revenue	-	250
Other Additions	240	7,469
TOTAL ADDITIONS	<u>433,532</u>	<u>218,401</u>
DEDUCTIONS:		
Benefits	209,255	6,341
Refunds	10,433	-
Amounts Distributed to Outside Parties	-	5,912
Administrative Expenses	4,620	1,528
TOTAL DEDUCTIONS	<u>224,308</u>	<u>13,781</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	209,224	-
Other Purposes	-	204,620
NET ASSETS-BEGINNING OF YEAR	<u>5,315,491</u>	<u>209,002</u>
NET ASSETS-END OF YEAR	<u>\$ 5,524,715</u>	<u>\$ 413,622</u>

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

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2003

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 176,689	\$ 10,641	\$ 187,330
Receivables, net of allowance			
Loans	34,901	2,730	37,631
Other	92,836	625	93,461
Due from Primary Government	-	1,349	1,349
Investments	234,015	-	234,015
Investment in Joint Venture	131,516	-	131,516
Other Assets	43,832	600	44,432
Restricted Assets:			
Cash and Cash Equivalents	238,398	12,443	250,841
Investments Held by Trustee	-	3,077	3,077
Capital assets:			
Land	45,071	557	45,628
Infrastructure	73,972	11,104	85,076
Construction in Progress	101,346	20,215	121,561
Buildings and Equipment	1,175,045	98,485	1,273,530
Less Accumulated Depreciation	<u>(472,817)</u>	<u>(48,407)</u>	<u>(521,224)</u>
Total Capital Assets, net of depreciation	<u>922,617</u>	<u>81,954</u>	<u>1,004,571</u>
Total Assets	<u>\$ 1,874,804</u>	<u>\$ 113,419</u>	<u>\$ 1,988,223</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 70,923	\$ 5,914	\$ 76,837
Deposits	-	354	354
Deferred Revenue	66,648	291	66,939
Noncurrent Liabilities:			
Due within one year	34,647	3,827	38,474
Due in more than one year	<u>301,118</u>	<u>29,241</u>	<u>330,359</u>
Total Liabilities	<u>\$ 473,336</u>	<u>\$ 39,627</u>	<u>\$ 512,963</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 628,781	\$ 51,291	\$ 680,072
Restricted for:			
Education	109,879	-	109,879
Other Purposes	317,727	3,962	321,689
Construction and Debt Service	141,464	13,512	154,976
Unrestricted	<u>203,617</u>	<u>5,027</u>	<u>208,644</u>
Total Net Assets	<u>\$ 1,401,468</u>	<u>\$ 73,792</u>	<u>\$ 1,475,260</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2003

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 757,497	\$ 44,061	\$ 801,558
Supplies and materials	179,262	5,199	184,461
Contractual services	57,344	1,957	59,301
Repairs and maintenance	45,691	891	46,582
Utilities	23,494	2,825	26,319
Communications	13,828	1,013	14,841
Depreciation	53,182	2,894	56,076
Scholarships and fellowships	88,855	1,133	89,988
Other	-	6,351	6,351
Total Operating Expenses	<u>1,219,153</u>	<u>66,324</u>	<u>1,285,477</u>
Program Revenues:			
Charges for Services	450,827	20,063	470,890
Operating Grants and Contributions	310,801	7,163	317,964
Capital Grants and Contributions	27,075	-	27,075
Total Program Revenues	<u>788,703</u>	<u>27,226</u>	<u>815,929</u>
Net (Expense) Revenue	<u>(430,450)</u>	<u>(39,098)</u>	<u>(469,548)</u>
General Revenue:			
Interest and investment earnings	3,906	1,155	5,061
Payments from the State of Nebraska	422,002	39,323	461,325
Miscellaneous	69,039	4,644	73,683
Total General Revenues	<u>494,947</u>	<u>45,122</u>	<u>540,069</u>
Change in Net Assets Before Change in Accounting Principle	64,497	6,024	70,521
Cumulative Effect of Change in Accounting Principle	<u>(15,572)</u>	<u>-</u>	<u>(15,572)</u>
Change in Net Assets	48,925	6,024	54,949
Net Assets - Beginning	<u>1,352,543</u>	<u>67,768</u>	<u>1,420,311</u>
Net Assets - Ending	<u>\$ 1,401,468</u>	<u>\$ 73,792</u>	<u>\$ 1,475,260</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

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

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

B. Reporting Entity. In determining its financial reporting entity, the State has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State, or the significance of their relationship with the State are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

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

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

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by

the State in 1999 to acquire property to be leased to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

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

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

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

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The University's financial reporting entity also consists of the following units: the University of Nebraska Facilities Corporation, a nonprofit corporation organized by the Board of Regents in 1930 to finance the construction and repair of

buildings and hold them in trust for the University of Nebraska; the University Medical Associates, organized for the purpose of billing medical service fees generated by university clinicians; UNEMed, organized to develop and market biomedical technologies for the university; the University Dental Associates, organized for the purpose of billing dental service fees generated by university dentists; and the Nebraska Utility Corporation, formed to purchase, lease, construct and finance activities relating to energy requirements of the University of Nebraska-Lincoln. The University of Nebraska is included as a component unit because it is fiscally dependant on the State. Audit reports have been issued under separate cover.

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

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

C. Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the State as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Net Assets reports total unrestricted net assets of \$134,471. A significant portion of these net assets relate to the Health and Social Services Fund. While this fund is reported as unrestricted, a significant portion of the fund has statutory provisions requiring the fund be spent on nursing facilities, medical assistance programs and tobacco prevention and control. Furthermore, the public has been led to believe such fund will be used for health related purposes, even though enabling legislation is lacking for the entire amount of such fund.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 60 days, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment compensation taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred revenue.

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

The State reports the following major governmental funds:

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

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

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

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

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

The State reports the following major enterprise fund:

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing,

and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

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

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

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

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

- E. Cash and Cash Equivalents.** In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2003, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash

account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operational investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

- F. Investments.** Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.
- G. Receivables.** Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.
- H. Inventories.** Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).
- Food stamps and commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Food stamp inventory is reported at face value and commodities are reported at fair values established by the federal government at the date received.
- I. Restricted Assets.** Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.
- J. Capital Assets.** Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These collections are not capitalized by the State because they are (1) held for public exhibition, education or research in furtherance of public service, rather than financial gain, (2) protected, kept unencumbered, cared for and preserved, and (3) subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

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

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

Buildings	40 years
Equipment	3-10 years

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

K. Compensated Employee Absences. All permanent employees earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. The

liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 220 days (or 180 days for non-union employees). Sick leave is not vested except upon death or upon reaching the age of 55, at which time, the State is liable for 25 percent of the employee’s accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime.

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

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

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

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

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

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash

Equivalents and Investments on the June 30, 2003, basic financial statements. All securities purchased or held must either be in the custody of the State or deposited with an agent in the State's name.

Deposits. At June 30, 2003, the carrying amounts of the State's deposits were \$141,410 and the bank balances were \$201,540. All bank balances were covered by federal depository insurance or by collateral held by the State's agent in the State's name.

State Statutes require that the aggregate amount of collateral securities deposited by a bank with the State Treasurer shall be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. During the year the amount of public funds deposited with a bank occasionally exceeded the amount of collateral required by statute. The State Treasurer had compensating balance agreements with various banks totaling \$74,288 at June 30, 2003.

Investments. State Statute Section 72-1246 authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule. Certain State entities are also allowed by statute to invest in real estate and other investments.

The State's investments are categorized to give an indication of the level of custodial risk assumed by the State at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

The Pension Funds own approximately 62 percent of the investments that are in Category 1.

STATE'S INVESTMENTS AT JUNE 30, 2003

	CATEGORY			TOTAL FAIR VALUE
	1	2	3	
U.S. Government Securities	\$ 1,171,285	\$ 4,447	\$ -	\$ 1,175,732
Corporate Bonds	775,861	-	-	775,861
Equity Securities				
Not on Securities Loan	1,012,342	-	-	1,012,342
On Securities Loan	6	-	-	6
Collateral Mortgage Obligations	127,555	-	-	127,555
Foreign Government Securities	38,238	-	-	38,238
Municipal Bonds	10,899	-	-	10,899
	<u>\$ 3,136,186</u>	<u>\$ 4,447</u>	<u>\$ -</u>	3,140,633
UNCATEGORIZED:				
Pooled Investment Contracts				976,091
Investment in U.S. Treasury				
Investment Pool				147,913
Investments held by Broker-Dealers				
Under Securities Loans				
U.S. Government Securities				423,072
Corporate Bonds				33,756
Equity Securities				94,139
Securities Lending Short-term Collateral				
Investment Pool				564,008
Mutual Funds				3,010,843
Less: Component Unit Investment				
in State Investment Pool				(295,896)
Total Investments				<u>\$ 8,094,559</u>

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2003, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 8,094,559
Carrying amount of Deposits	141,410
Total	<u>\$ 8,235,969</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 433,472
Investments	1,215,768
Restricted Cash and Cash Equivalents	34,377
Securities Lending Collateral	244,913

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	103,599
Investments	5,884,745
Securities Lending Collateral	319,095
Total	<u>\$ 8,235,969</u>

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial bank administers the securities lending program and receives cash, United States government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as uncategorized in the preceding schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 67 and 70 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian.

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

instruments at a future date and at a specific price. The State invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2003, the State held futures contracts with a par value of \$349,213 of and a market value of \$0.

Component Units

Deposits. At June 30, 2003, the carrying amounts of the Component Units' deposits were \$1,973 and the bank balances were \$2,408. Of the bank balances, \$1,753 was covered by federal depository insurance or by collateral held by the component units' agent in the component units' name, \$369 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the component units' name and \$286 was not collateralized.

Investments. Component unit investments are all classified as category 3 investments, except for mutual funds, which are not categorized. Investments for the component units at June 30, 2003, consist of the following:

U.S. Government Securities	\$ 55,242
Corporate Bonds	100,393
Mutual Funds	81,457
Total Investments	<u>\$ 237,092</u>

The investments for the component units are presented on the Statement of Net Assets at June 30, 2003, as follows:

Statement of Net Assets:

Investments	\$ 234,015
Restricted Other Assets	3,077
Total	<u>\$ 237,092</u>

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2003:

Governmental Activities:

General Fund	\$ 7,060
Federal Fund	10,877
Health and Social Services Fund	5,375
Total Governmental Activities	<u>\$ 23,312</u>

Business-type Activities:

Unemployment Compensation	\$ 4,738
Total Business-type Activities	<u>\$ 4,738</u>

Of the taxes receivable, \$9,951 is not expected to be collected within the next 60 days. This amount has been offset by deferred revenue in the General Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 438,290	\$ 20,032	\$ 152	\$ 458,170
Infrastructure	5,980,917	100,930	-	6,081,847
Construction in progress	29,856	32,824	5,479	57,201
Total capital assets, not being depreciated	<u>6,449,063</u>	<u>153,786</u>	<u>5,631</u>	<u>6,597,218</u>
Capital assets, being depreciated:				
Buildings and improvements	420,510	4,495	1,296	423,709
Equipment	286,014	59,267	27,950	317,331
Total capital assets, being depreciated	<u>706,524</u>	<u>63,762</u>	<u>29,246</u>	<u>741,040</u>
Less accumulated depreciation for:				
Buildings and improvements	171,702	9,647	1,296	180,053
Equipment	192,649	33,322	23,525	202,446
Total accumulated depreciation	<u>364,351</u>	<u>42,969</u>	<u>24,821</u>	<u>382,499</u>
Total capital assets, being depreciated, net	<u>342,173</u>	<u>20,793</u>	<u>4,425</u>	<u>358,541</u>
Governmental activities capital assets, net	<u>\$ 6,791,236</u>	<u>\$ 174,579</u>	<u>\$ 10,056</u>	<u>\$ 6,955,759</u>
Business-type activities:				
Unemployment Compensation				
Equipment, being depreciated	\$ 177	\$ -	\$ 15	\$ 162
Less accumulated depreciation	151	5	15	141
Total Unemployment Compensation, net	<u>26</u>	<u>(5)</u>	<u>-</u>	<u>21</u>
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>
Capital assets, being depreciated:				
Buildings and improvements	5,695	147	-	5,842
Equipment	3,929	134	79	3,984
Total capital assets, being depreciated	<u>9,624</u>	<u>281</u>	<u>79</u>	<u>9,826</u>
Less accumulated depreciation for:				
Buildings and improvements	1,034	253	-	1,287
Equipment	1,937	454	79	2,312
Total accumulated depreciation	<u>2,971</u>	<u>707</u>	<u>79</u>	<u>3,599</u>
Total capital assets, being depreciated, net	<u>6,653</u>	<u>(426)</u>	<u>-</u>	<u>6,227</u>
Total Nonmajor Enterprise, net	<u>6,968</u>	<u>(426)</u>	<u>-</u>	<u>6,542</u>
Business-type activities capital assets, net	<u>\$ 6,994</u>	<u>\$ (431)</u>	<u>\$ -</u>	<u>\$ 6,563</u>

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

Governmental activities:	
General Government	\$ 10,786
Conservation of Natural Resources	1,995
Culture – Recreation	1,498
Economic Development and Assistance	284
Education	4,157
Health and Social Services	1,366
Public Safety	7,178
Regulation of Business and Professions	400
Transportation	15,305
Total depreciation expense - Governmental activities	<u>\$ 42,969</u>

Construction Commitments. At June 30, 2003, the State had contractual commitments of approximately \$552,946 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 126,107
State funds	396,839
Local funds	30,000
	<u>\$ 552,946</u>

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

5. Interfund Balances

Due To/From Other Funds at June 30, 2003, consists of the following:

	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
DUE FROM									
General Fund	\$ 5	\$ 8	\$ -	\$ 339	\$ 46	\$ 164	\$ 38,100	\$ 16,443	\$ 55,105
Highway Fund	-	-	-	-	31	10	4	-	45
Federal Fund	84,057	2	467	8,189	2,332	207	3,841	2	99,097
Health and Social Services	-	-	-	38	41	4	104	-	187
Permanent School Fund	-	-	-	-	-	-	-	836	836
Nonmajor Governmental Funds	5,381	3	37	20	54	32	1,450	1,599	8,576
Nonmajor Enterprise Funds	-	8	-	10	1,030	-	32	-	1,080
Internal Service Funds	63	504	-	-	136	6	895	4	1,608
Fiduciary Funds	-	-	-	-	3	1	41	-	45
TOTALS	\$ 89,506	\$ 525	\$ 504	\$ 8,596	\$ 3,673	\$ 424	\$ 44,467	\$ 18,884	\$ 166,579

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for \$35,700 due from the General Fund to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2003, consist of the following:

	TRANSFERRED TO:				TOTALS
	General Fund	Highway Fund	Health and Social Services	Nonmajor Governmental Funds	
TRANSFERRED FROM:					
General Fund	\$ -	\$ -	\$ -	\$ 28,490	\$ 28,490
Highway Fund	14,400	-	-	4,952	19,352
Federal Fund	-	-	-	10,866	10,866
Health & Social Services Fund	800	-	-	-	800
Nonmajor Governmental Funds	58,017	2,058	50	7,088	67,213
Nonmajor Enterprise Funds	-	-	697	19,533	20,230
Internal Service Funds	874	-	-	-	874
TOTALS	\$ 74,091	\$ 2,058	\$ 747	\$ 70,929	\$ 147,825

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

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the basic financial statements at June 30, 2003, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Compensation	Nonmajor Enterprise Funds	TOTALS
Payroll and Withholdings	\$ 8,499	\$ 4,241	\$ 2,204	\$ 381	\$ -	\$ 1,432	\$ 940	\$ 1	\$ 144	\$ 17,842
Payables and Accruals	75,983	51,924	66,775	34,867	132	15,382	9,140	3,202	5,077	262,482
Due to Fiduciary Funds *	-	-	-	-	-	-	18,884	-	-	18,884
Miscellaneous	714	84	-	237	-	209	372	40	-	1,656
TOTALS	\$ 85,196	\$ 56,249	\$ 68,979	\$ 35,485	\$ 132	\$ 17,023	\$ 29,336	\$ 3,243	\$ 5,221	\$ 300,864

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

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2003, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 54,827	\$ 1,671,988	\$ 1,344,354	\$ 382,461	\$ 186,931
Bonds Payable	33,210	-	2,250	30,960	3,695
Capital Lease Obligations	31,885	1,646	3,695	29,836	3,580
Obligations Under Other Financing Arrangements	7,185	4,950	1,580	10,555	450
Compensated Absences	97,971	21,129	12,450	106,650	15,388
Totals	\$ 225,078	\$ 1,699,713	\$ 1,364,329	\$ 560,462	\$ 210,044
Business-type Activities:					
Unemployment Compensation:					
Claims Payable	\$ 16,784	\$ 160,074	\$ 157,683	\$ 19,175	\$ 19,175
Compensated Absences	55	12	8	59	8
Totals for Unemployment Compensation	16,839	160,086	157,691	19,234	19,183
Nonmajor Enterprise Funds:					
Claims Payable	44,500	18,951	13,451	50,000	12,097
Compensated Absences	424	54	61	417	61
Totals for Nonmajor Enterprise Funds	44,924	19,005	13,512	50,417	12,158
Totals for Business-type Activities	\$ 61,763	\$ 179,091	\$ 171,203	\$ 69,651	\$ 31,341

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

8. Bonds Payable

Article XIII of the State's Constitution prohibits the State from incurring debt in excess of one hundred thousand dollars. However, there is a provision in the State's Constitution that permits the issuance of revenue bonds for: (1) construction of highways; and (2)

construction of water conservation and management structures. At June 30, 2003, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May 2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt,

which may apply to the State itself. The obligations outstanding at June 30, 2003 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2003 are

collateralized by the revenues of the NSBC, which consist primarily of building rental paid by the State.

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

All outstanding bond issues of the University of Nebraska Facilities Corporation and the Nebraska State College Facilities Corporation are general obligations of these corporations. They are separate legal entities that are not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2003 are collateralized by a special allocation of a portion of the State cigarette tax.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2003
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000,2002	2001-2010	2.70%-6.00%	\$ 27,310
Nebraska State Building Corporation Issue	2002	2002-2009	1.50%-3.85%	3,650
Primary Government Total				<u>\$ 30,960</u>
COMPONENT UNITS				
University of Nebraska	1992-2003	1992-2032	1.20%-5.90%	\$ 253,135
Nebraska State Colleges	1999-2002	2001-2027	1.60%-5.05%	30,915
Component Units Total				<u>\$ 284,050</u>

**PRIMARY GOVERNMENT
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2004	3,695	1,507	5,202
2005	3,835	1,366	5,201
2006	3,995	1,209	5,204
2007	4,195	1,014	5,209
2008	4,405	808	5,213
2009 - 2013	10,835	875	11,710
Total	<u>\$ 30,960</u>	<u>\$ 6,779</u>	<u>\$ 37,739</u>

**COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2004	14,960	13,203	28,163
2005	18,570	12,535	31,105
2006	26,385	11,755	38,140
2007	21,210	10,627	31,837
2008	21,445	9,642	31,087
2009-2013	87,450	33,814	121,264
2014-2018	51,325	18,003	69,328
2019-2023	21,985	8,104	30,089
Thereafter	20,720	7,995	28,715
Total	<u>\$ 284,050</u>	<u>\$ 125,678</u>	<u>\$ 409,728</u>

Changes in bonds payable for component units for fiscal year 2003 are summarized below:

Balance at July 1, 2002	\$ 263,650
New Bonds Issued:	
University of Nebraska	59,390
Nebraska State Colleges	14,315
Bonds Retired	(53,305)
Balance at June 30, 2003	<u>\$ 284,050</u>

Bond Defeasances – Primary Government

On June 7, 2002, NSBC issued \$4,155 of Series 2002 Lease Rental Revenue Bonds to advance refund \$4,385 of outstanding Series 1992 Lease Rental Revenue Refunding Bonds. The net proceeds of \$4,105, plus an additional \$298 of 1992 bond fund monies were used to advance refund the 1992 bonds. Outstanding bonds on July 8, 2002 were redeemed at a price equal to the principal amount plus accrued interest. The refunding resulted in a decrease in net debt service payments over the life of the bonds of \$617. This is equivalent to an economic gain of \$306. At June 30, 2003, \$4,385 of the Series 1992 Bonds are outstanding.

Bond Defeasances – Component Units

On July 15, 1993, the University of Nebraska Facilities Corporation issued \$45,570 of Refunding Bonds. On September 30, 1997, the University of Nebraska Facilities Corporation deposited \$34,764 into an

irrevocable trust with an escrow agent to defease outstanding 1993 Series Bonds. Outstanding bonds on July 1, 2005 will be redeemed at a price equal to the principal amount plus accrued interest. As a result, the 1993 bonds are considered to be defeased and the liability for these bonds has been removed from bonds payable. At June 30, 2003, \$26,380 of 1993 bonds are outstanding.

9. Lease Commitments

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

The minimum annual lease payments and the present value of future minimum payments for capital leases as of June 30, 2003 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS
2004	4,668	1,390
2005	5,867	1,396
2006	5,371	1,395
2007	5,215	1,395
2008	4,066	1,311
2009-2013	7,437	1,938
2014-2018	2,338	-
2019-2023	74	-
Total Minimum Payments	35,036	8,825
Less: interest and executory costs	5,200	825
Present value of net minimum payments	<u>\$ 29,836</u>	<u>\$ 8,000</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2003:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS
Buildings	\$ 7,070	\$ -
Equipment	35,370	9,040
Less: accumulated depreciation	(10,465)	(2,009)
Carrying value	<u>\$ 31,975</u>	<u>\$ 7,031</u>

The minimum annual lease payments for operating leases as of June 30, 2003 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2004	\$ 7,210
2005	4,030
2006	3,930
2007	3,348
2008	3,122
2009-2013	8,161
2014-2018	534
2019-2023	214
Total	<u>\$ 30,549</u>

Primary Government operating lease payments for the year ended June 30, 2003 totaled \$12,025.

Lessor Transactions. The State also is a lessor of property, primarily farm land leased by the Board of Educational Lands and Funds to farmers and ranchers. At June 30, 2003, the State owned approximately 1.5 million acres of land that was under lease. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$23,928 were received under these and other lease agreements for the year ended June 30, 2003.

10. Obligations Under Other Financing Arrangements

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

A summary of the future minimum contractual obligations including interest at rates from 1.30 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2004	\$ 450	\$ 463	\$ 913
2005	565	466	1,031
2006	580	445	1,025
2007	605	422	1,027
2008	630	396	1,026
2009-2013	3,625	1,521	5,146
2014-2018	4,100	478	4,578
Total	<u>\$ 10,555</u>	<u>\$ 4,191</u>	<u>\$ 14,746</u>

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

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

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

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

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

State Employees' Retirement. This plan became effective January 1, 1964, and is a single-employer defined contribution plan established to provide benefits at retirement to general employees of the State. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2002.

Participation in the plan is required for all permanent full-time employees upon reaching the age of 30 and completion of 24 months of continuous service. Each member contributes 4.33 percent of their compensation until \$864 (not in thousands) has been paid and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2002, there were 14,349 active members and 2,002 inactive members. Members contributed \$21,582 and the State contributed

\$33,720 during the year ended December 31, 2002, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2002.

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

As of December 31, 2002, there were 6,162 active members and 1,032 inactive members. Members contributed \$6,054 and counties contributed \$9,033 during the year ended December 31, 2002, which were equal to required contributions.

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

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

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

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

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit

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

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

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

	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	6/30/2003	6/30/2003
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Amount Closed	Level Amount Closed
Amortization Period	25 Years	25 Years
Mortality	1994 Group Annuity Table	1994 Group Annuity Table
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return **	8.0%	8.0%
Projected Salary Increases **	5.0%	Graded 12.0% to 4.5%

** Includes assumed inflation of 3.5% per year.

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

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS						
Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(a-b) Excess of Assets over AAL	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Excess as a Percentage of Covered Payroll
Judges'						
6/30/2003	\$ 91,864	\$ 85,388	\$ 6,476	107.6 %	\$ 16,402	39.5 %
6/30/2002	92,596	81,192	11,404	114.0	16,062	71.0
6/30/2001	90,686	90,686	-	100.0	15,188	-
State Patrol						
6/30/2003	\$ 214,657	\$ 210,931	\$ 3,726	101.8 %	\$ 21,929	17.0 %
6/30/2002	214,528	197,615	16,913	108.6	18,847	89.7
6/30/2001	208,373	187,284	21,089	111.3	16,727	126.1

UNAUDITED THREE-YEAR TREND INFORMATION			
YEAR ENDED JUNE 30	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
School			
2003	\$ 15,521	100%	\$ -
2002	14,971	100	-
2001	14,452	100	-
Judges'			
2003	\$ 1,292	50%	\$ 646
2002	559	100	-
2001	546	100	-
State Patrol			
2003	\$ 2,653	100%	\$ -
2002	2,428	100	-
2001	2,258	100	-

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

The total payroll for the University and State Colleges for fiscal year 2003 was \$649,315 of which \$483,110 was covered by the plan. The institutions' contributions were \$35,590 or 7.37 percent of covered payroll and the employees' contributions were \$25,498 or 5.28 percent of covered payroll.

Other Plans

Component Units. The Teachers Insurance and Annuity Association/College Retirement Equity Fund, a privately administered defined contribution retirement plan, provides individual retirement fund contracts for

12. Contingencies and Commitments

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

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

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

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

The Excess Liability Fund (Fund) of the State was established to account for activity resulting from the Nebraska Hospital-Medical Liability Act (the Act). Revenues of this fund are earned primarily from insurance premiums from certain health care providers covered under the Residual Authority administered by the Fund plus a surcharge levied on all participating health care providers in Nebraska. Expenses from this fund are used to pay judgments against participating health care providers. Under the Act, the State is limited to \$1,250 per occurrence. The State is a party to more than 80 lawsuits involving a doctor and other health care providers in Nebraska by former patients seeking recovery of damages for professional negligence and

medical malpractice resulting in the claimant-patients being exposed to or contracting Hepatitis C. The State accrues for claims against the Fund when payments associated with the claims become probable and can be reasonably estimated for financial statement purposes. The State has recorded a reserve as Claims Payable for this litigation in the Fund and Government-wide Financial Statements. Management of the State believes the accrual for claims payable is appropriate based on information currently available. Management of the State also believes the State has no separate obligation to satisfy any financial obligation of the Fund. The actual costs of resolving these claims against the State may differ substantially from the amounts accrued.

13. Risk Management

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

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

The liability for workers' compensation is recorded at a discounted rate of three percent (\$5,984), which resulted in a liability of \$55,270.

Changes in the balances of claims liabilities during the years ended June 30, 2003, and 2002, were as follows:

	Fiscal Year	
	2003	2002
Beginning Balance	\$ 52,357	\$ 39,031
Current Year Claims and Changes in Estimates	129,571	68,116
Claim Payments	(118,568)	(54,790)
Ending Balance	<u>\$ 63,360</u>	<u>\$ 52,357</u>

14. Joint Venture

On October 1, 1997, the Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement forming the Nebraska Health System, a Nebraska nonprofit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint venture under the equity method. The University has recorded fifty percent equity in the change in net assets of NMC for the year ended June 30, 2003 totaling approximately \$(14,871). In addition, to the extent that sufficient funds are available as determined by the NMC Board of Directors, the University will receive an

annual capital distribution. A distribution of \$3,000 was declared for fiscal year 2003.

In connection with the Joint Operating Agreement, the Board of Regents also entered into an Academic Affiliation Agreement for Education and Research with NMC. In connection with this agreement, NMC has agreed to financially support certain educational, research, operational and clinical activities of the University that further the mission and objectives of NMC. During the year ended June 30, 2003, the University received approximately \$20,603 of support in connection with the agreement.

Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42nd Street and Dewey Avenue, Omaha NE 68105.

15. Accounting Change

The University previously calculated depreciation on its buildings using the straight-line method over the estimated useful life of the related assets. Effective July 1, 2002, the University changed its method of calculating depreciation for buildings to use the componentized method over the estimated useful life of the related assets. Management believes the change in accounting principle is preferable under accounting principles generally accepted in the United States of America and it is the method used for indirect cost reporting purposes. The cumulative effect of this change resulted in a decrease in net assets of \$15,572.

REQUIRED SUPPLEMENTARY INFORMATION



State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2003

(Dollars in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 2,620,581	\$ 2,431,730	\$ 2,382,130	\$ (49,600)
Federal Grants and Contracts	30,331	30,331	30,331	-
Sales and Charges	21,086	21,086	21,086	-
Other	12,781	12,781	12,781	-
TOTAL REVENUES	<u>2,684,779</u>	<u>2,495,928</u>	<u>2,446,328</u>	<u>(49,600)</u>
EXPENDITURES:				
Current:				
General Government	107,753	98,907	92,287	6,620
Conservation of Natural Resources	45,532	41,039	30,910	10,129
Culture – Recreation	5,863	5,849	5,663	186
Economic Development and Assistance	8,213	8,137	6,697	1,440
Education	1,400,314	1,378,520	1,358,368	20,152
Health and Social Services	884,973	852,239	822,763	29,476
Public Safety	182,413	190,063	168,784	21,279
Regulation of Business and Professions	3,722	3,546	3,132	414
Transportation	1,051	870	308	562
Intergovernmental	104,640	105,815	102,521	3,294
TOTAL EXPENDITURES	<u>2,744,474</u>	<u>2,684,985</u>	<u>2,591,433</u>	<u>93,552</u>
Excess of Revenues Over (Under) Expenditures	<u>(59,695)</u>	<u>(189,057)</u>	<u>(145,105)</u>	<u>43,952</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	196,051	196,051	196,051	-
Transfers Out	(153,496)	(153,496)	(153,496)	-
Other	289	289	289	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>42,844</u>	<u>42,844</u>	<u>42,844</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(16,851)</u>	<u>(146,213)</u>	<u>(102,261)</u>	<u>43,952</u>
FUND BALANCES, JULY 1	<u>164,108</u>	<u>164,108</u>	<u>164,108</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 147,257</u>	<u>\$ 17,895</u>	<u>\$ 61,847</u>	<u>\$ 43,952</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2003, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2003	
General	\$ 2,704
Cash Reserve	59,143
Budgetary fund balances	<u>61,847</u>
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record amount due component units	1,349
Record taxes receivable	236,696
Record tax refund liability	(239,930)
Record State contributions due pension funds	(15,927)
Record medicaid claims payable	(73,254)
Record other net accrued receivables and liabilities	12,174
GAAP fund balance, June 30, 2003	<u>\$ (17,045)</u>

See independent auditor's report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2003

(Dollars in Thousands)

CASH FUNDS

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 82,347	\$ 82,347	\$ 82,347	\$ -
Federal Grants and Contracts	253,936	253,936	253,936	-
Sales and Charges	238,461	238,461	238,461	-
Other	234,211	234,211	234,211	-
TOTAL REVENUES	808,955	808,955	808,955	-
EXPENDITURES:				
Current:				
General Government	64,201	64,736	43,103	21,633
Conservation of Natural Resources	84,961	82,408	45,633	36,775
Culture – Recreation	28,695	29,477	19,541	9,936
Economic Development and Assistance	41,270	41,270	16,275	24,995
Education	384,478	340,307	206,889	133,418
Health and Social Services	206,716	222,818	125,972	96,846
Public Safety	32,201	32,219	23,102	9,117
Regulation of Business and Professions	166,211	173,122	113,719	59,403
Transportation	602,458	632,458	580,366	52,092
Intergovernmental	7,551	8,107	7,157	950
Capital Projects	35,906	35,925	11,090	24,835
TOTAL EXPENDITURES	1,654,648	1,662,847	1,192,847	470,000
Excess of Revenues Over (Under) Expenditures	(845,693)	(853,892)	(383,892)	470,000
OTHER FINANCING SOURCES (USES):				
Transfers In	834,514	834,514	834,514	-
Transfers Out	(531,483)	(531,483)	(531,483)	-
Other	2,153	2,153	2,153	-
TOTAL OTHER FINANCING SOURCES (USES)	305,184	305,184	305,184	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(540,509)	(548,708)	(78,708)	470,000
FUND BALANCES, JULY 1	635,763	635,763	635,763	-
FUND BALANCES, JUNE 30	\$ 95,254	\$ 87,055	\$ 557,055	\$ 470,000

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2003, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2003		
Cash		\$ 557,055
Construction		3,037
Federal		39,327
Revolving		129,212
Budgetary fund balances		728,631
DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS:		107
GAAP fund balance, June 30, 2003		\$ 728,738
Actual Fund Balances of Major Funds, June 30, 2003		
Highway		\$ 127,638
Federal		11,621
Health and Social Services		274,356
Permanent School		315,123
GAAP fund balance, June 30, 2003		\$ 728,738

See independent auditor's report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2003

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	68	68	68	-
TOTAL REVENUES	68	68	68	-
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	468	468	-	468
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	9,748	9,735	8,640	1,095
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	26,145	27,435	21,199	6,236
TOTAL EXPENDITURES	36,361	37,638	29,839	7,799
Excess of Revenues Over (Under) Expenditures	(36,293)	(37,570)	(29,771)	7,799
OTHER FINANCING SOURCES (USES):				
Transfers In	31,684	31,684	31,684	-
Transfers Out	-	-	-	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	31,684	31,684	31,684	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(4,609)	(5,886)	1,913	7,799
FUND BALANCES, JULY 1	1,124	1,124	1,124	-
FUND BALANCES, JUNE 30	\$ (3,485)	\$ (4,762)	\$ 3,037	\$ 7,799

See independent auditor's report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2003

(Dollars in Thousands)

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	1,823,314	1,823,314	1,823,314	-
Sales and Charges	17,670	17,670	17,670	-
Other	<u>11,118</u>	<u>11,118</u>	<u>11,118</u>	<u>-</u>
TOTAL REVENUES	<u>1,852,102</u>	<u>1,852,102</u>	<u>1,852,102</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	8,125	8,178	3,978	4,200
Conservation of Natural Resources	64,054	66,816	34,344	32,472
Culture – Recreation	3,115	3,315	1,975	1,340
Economic Development and Assistance	67,736	75,404	60,748	14,656
Education	461,779	536,280	448,284	87,996
Health and Social Services	1,269,574	1,339,065	1,250,264	88,801
Public Safety	47,714	58,107	43,081	15,026
Regulation of Business and Professions	1,797	1,804	1,171	633
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	<u>9,442</u>	<u>11,399</u>	<u>5,333</u>	<u>6,066</u>
TOTAL EXPENDITURES	<u>1,933,336</u>	<u>2,100,368</u>	<u>1,849,178</u>	<u>251,190</u>
Excess of Revenues Over (Under) Expenditures	<u>(81,234)</u>	<u>(248,266)</u>	<u>2,924</u>	<u>251,190</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	1,297	1,297	1,297	-
Transfers Out	(1,315)	(1,315)	(1,315)	-
Other	<u>(428)</u>	<u>(428)</u>	<u>(428)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(446)</u>	<u>(446)</u>	<u>(446)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(81,680)</u>	<u>(248,712)</u>	<u>2,478</u>	<u>251,190</u>
FUND BALANCES, JULY 1	<u>36,849</u>	<u>36,849</u>	<u>36,849</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (44,831)</u>	<u>\$ (211,863)</u>	<u>\$ 39,327</u>	<u>\$ 251,190</u>

See independent auditor's report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2003

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	464	464	464	-
Sales and Charges	327,092	327,092	327,092	-
Other	131,096	131,096	131,096	-
TOTAL REVENUES	458,652	458,652	458,652	-
EXPENDITURES:				
Current:				
General Government	217,900	215,871	147,801	68,070
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	1,786	1,786	437	1,349
Education	359,421	392,572	307,302	85,270
Health and Social Services	-	-	-	-
Public Safety	19,560	19,560	7,726	11,834
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	598,667	629,789	463,266	166,523
Excess of Revenues Over (Under) Expenditures	(140,015)	(171,137)	(4,614)	166,523
OTHER FINANCING SOURCES (USES):				
Transfers In	31,663	31,663	31,663	-
Transfers Out	(31,149)	(31,149)	(31,149)	-
Other	1,047	1,047	1,047	-
TOTAL OTHER FINANCING SOURCES (USES)	1,561	1,561	1,561	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(138,454)	(169,576)	(3,053)	166,523
FUND BALANCES, JULY 1	132,265	132,265	132,265	-
FUND BALANCES, JUNE 30	\$ (6,189)	\$ (37,311)	\$ 129,212	\$ 166,523

See independent auditor's report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2003

Budgetary Process

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

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

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

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

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

Cash Reserve Fund. To account for financial resources used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations. The Cash Reserve Fund is part of the budgetary basis fund balance.

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

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

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

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

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

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

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

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2003, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2003, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

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

For the Year Ended June 30, 2003

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

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

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

Measurement Scale

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

Established Condition Level

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

Assessed Condition

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

<u>Calendar Year</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Very Good	38%	48%	50%	51%	47%
Good	43%	36%	35%	35%	33%
Fair	16%	13%	13%	12%	18%
Poor	3%	3%	2%	2%	2%
Overall System Rating	83.0%	84.0%	84.0%	83.6%	82.7%

Estimated and Actual Costs to Maintain

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

<u>Fiscal Year</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Estimated	\$ 179	\$ 174	\$ 169
Actual	\$ 199	194	
Difference	25	25	



SINGLE AUDIT SECTION

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

<u>Federal Agency/Program Title</u>	<u>CFDA or Grant #</u>	<u>2003 Expenditures</u>
Agriculture, Department of		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 226,429
State Mediation Grants	10.435	137,695
Food Donation	10.550	7,749,310
Food Stamp Cluster:		
Food Stamps	10.551	93,267,446
State Administrative Matching Grants for Food Stamp Program	10.561	13,330,306
Child Nutrition Cluster:		
School Breakfast Program	10.553	6,492,754
National School Lunch Program	10.555	33,924,560
Special Milk Program for Children	10.556	93,000
Summer Food Service Program for Children	10.559	850,608
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	21,122,734
Child and Adult Care Food Program	10.558	21,924,523
State Administrative Expenses for Child Nutrition	10.560	882,753
State Administrative Expenses for Child Nutrition	10.560	59,816
Commodity Supplemental Food Program	10.560	3,123,479
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	361,052
Emergency Food Assistance Program (Food Commodities)	10.569	1,197,675
Nutrition Services Incentive	10.570	1,025,182
WIC Farmers' Market Nutrition Program	10.572	164,000
Nebaska Plant Pest Homeland Security Project	02-8456-0601-CA	58,163
Homeland Security Cooperative Agreement	02-9731-0301 CA	37,081
National Organic Certification Cost—Share Program	12-25-A-4160	5,022
National Rural Development Partnership	43-3157-8-RDP03	172,446
Food Safety Task Force on Meat & Poultry Processing	FSIS 18-B-02	6,312
Long Pine Rural Clean Water Program	N/A	7,962
State Grants to Promote Agriculture and the Emergency Food Assistance Program	N/A	464,886
Nebaska Rural Rehabilitation Program	N/A	480,695
Total Agriculture, Department of		\$ 207,165,889
Association for Biodiversity Information		
Natural Heritage Data Enhancement	N/A	\$ 2,604
Total Association for Biodiversity Information		\$ 2,604
Commerce, U.S. Department of		
Public Telecommunications Facilities—Planning and Construction	11.550	\$ 3,970,959
Manufacturing Extension Partnership	11.611	110,834
Total Commerce, U.S. Department of		\$ 4,081,793
Corporation For National and Community Service		
State Commissions	94.003	\$ 154,724
Learn and Serve America—School and Community-Based Programs	94.004	87,280
AmeriCorps	94.006	1,301,710
Planning and Program Development Grants	94.007	166,705
Training and Technical Assistance	94.009	64,618
Total Corporation For National and Community Service		\$ 1,775,037

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

Federal Agency/Program Title	CFDA or Grant #	2003 Expenditures
Defense, U.S. Department of		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	\$ 8,936,828
Defense Environmental Restoration Program	NE-03-1	115,864
Missouri River Stabilization	DACW45-98-P-0526	15,040
Missouri River Ecology	DACW45-01-P-0191	155,736
Total Defense, U.S. Department of		<u>\$ 9,223,468</u>
Education, U.S. Department of		
Adult Education—State Grant Program	84.002	\$ 2,128,048
Title I Grants to Local Educational Agencies	84.010	34,722,762
Migrant Education—State Grant Program	84.011	4,813,421
Title I Program for Neglected and Delinquent Children	84.013	268,295
Special Education Cluster:		
Special Education—Grants to States	84.027	* 51,926,525
Special Education—Preschool Grants	84.173	* 3,241,409
Vocational Education—Basic Grants to States	84.048	* 7,325,081
Leveraging Educational Assistance Partnerships	84.069	585,386
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	* 2,492,566
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	* 11,738,769
Rehabilitation Services—Client Assistance Program	84.161	134,280
Immigrant Education	84.162	420,379
Independent Living—State Grants	84.169	34,379
Independent Living—State Grants	84.169	274,678
Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	84.177	197,136
Special Education—Grants for Infants and Families with Disabilities	84.181	2,009,885
Safe and Drug-Free Schools and Communities—National Programs	84.184	102,500
Byrd Honors Scholarships	84.185	249,000
Safe and Drug-Free Schools and Communities—State Grants	84.186	1,936,124
Safe and Drug-Free Schools and Communities—State Grants	84.186	85,131
Supported Employment Services for Individuals with Severe Disabilities	84.187	13,547
Supported Employment Services for Individuals with Severe Disabilities	84.187	270,001
Bilingual Education Support Services	84.194	2,580
Education for Homeless Children and Youth	84.196	138,103
Star Schools	84.203	7,397
Even Start—State Educational Agencies	84.213	1,091,626
Fund for the Improvement of Education	84.215	214,258
Capital Expenses	84.216	15,860
Assistive Technology	84.224	369,728
Rehabilitation Services Demonstration and Training Programs	84.235	271,294
Tech-Prep Education	84.243	723,204
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	68,994
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	32,385
Goals 2000—State and Local Education System Improvement Grants	84.276	1,161,440
School to Work Opportunities Program	84.278	94,953
Eisenhower Professional Development State Grants	84.281	1,566,762
Eisenhower Professional Development State Grants	84.281	322,656
Twenty-First Century Community Learning Centers	84.287	52,969
Innovation Education Program Strategies	84.298	1,882,529
Education Technology State Grants	84.318	1,832,475
Special Education—State Program Improvement Grants for Children with Disabilities	84.323	606,527

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

<u>Federal Agency/Program Title</u>	<u>CFDA or Grant #</u>	<u>2003 Expenditures</u>
Education, U.S. Department of, Continued		
Special Education—Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities		
Advanced Placement Program	84-326	311,788
Grants to States for Incarcerated Youth Offenders	84-330	4,704
Comprehensive School Reform Demonstration	84-331	75,551
Teacher Quality Enhancement Grants	84-332	1,117,325
Class Size Reduction	84-336	887,794
Preparing Tomorrow's Teachers to Use Technology	84-340	4,022,541
Vocational Education—Occupational and Employment Information State Grants	84-342	425,794
Title I Accountability Grants	84-346	126,339
Early Childhood Educator Professional Development	84-348	193,120
Transition to Teaching	84-349	325,361
School Renovation Grants	84-350	118,545
Rural Education	84-352	3,840,716
English Language Acquisition Grants	84-358	16,042
Improving Teacher Quality State Grants	84-365	630,992
Grants for State Assessments and Related Activities	84-367	2,339,727
Total Education, U.S. Department of	84-369	904,757
		\$ 151,366,138
Energy, U.S. Department of		
National Energy Information Center	81-039	6,000
State Energy Program	81-041	370,635
Weatherization Assistance for Low-Income Persons	81-042	2,329,208
Regional Biomass Energy Programs	81-079	371,912
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81-117	50,012
State Energy Program Special Projects	81-119	146,580
Oil Overcharge Settlements—Amoco	N/A	6,754
Oil Overcharge Settlements—Stripper Well	N/A	5,407
Oil Overcharge Settlements—Diamond Shamrock	N/A	1,813
Total Energy, U.S. Department of		\$ 3,288,321
Environmental Protection Agency		
State Indoor Radon Grants	66-032	205,648
Water Pollution Control—State and Interstate Program Support	66-419	110,957
State Public Water System Supervision	66-432	846,725
State Underground Water Source Protection	66-433	66,230
State Underground Water Source Protection	66-433	92,495
Water Quality Management Planning	66-454	62,446
Capitalization Grants for Clean Water State Revolving Funds	66-458	* 4,036,225
Nonpoint Source Implementation Grants	66-460	3,420,893
Wetland Program Development Grants	66-461	25,544
Wetland Program Development Grants	66-461	18,834
Capitalization Grants for Drinking Water State Revolving Fund	66-468	7,661,481
Handship Grant Program Rural Communities	66-470	67,913
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66-471	32,835
Water Protection Grants to the States	66-474	38,820
Environmental Protection Consolidated Grants—Program Support	66-600	127,208
Performance Partnership Grants	66-605	3,820,058
Surveys, Studies, Investigations, and Special Purpose Grants	66-606	496,083
Training and Fellowships for the Environmental Protection Agency	66-607	34,241
State Information Grants	66-608	424,239

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

<u>Federal Agency/Program Title</u>	<u>CFDA or Grant #</u>	<u>2003 Expenditures</u>
Environmental Protection Agency, Continued		
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	6,248
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	573,418
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	265,635
Pollution Prevention Grants Program	66.708	143,536
Capacity Building Grants and Cooperative Agreements for States and Tribes	66.709	1,690
Superfund State, Political Subdivision, and Indian Tribe Site—Specific Cooperative Agreements	66.802	263,442
Superfund State, Political Subdivision, and Indian Tribe Site—Specific Cooperative Agreements	66.802	77,159
Leaking Underground Storage Tank Trust Fund Program	66.805	811,878
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	351,964
Total Environmental Protection Agency		\$ 24,083,845
Equal Employment Opportunity Commission, U.S.		
Employment Discrimination—Title VII of the Civil Rights Act of 1964	30.001	\$ 679,609
Total Equal Employment Opportunity Commission, U.S.		\$ 679,609
Federal Emergency Management Agency		
Community Assistance Program	83.105	\$ 77,849
Flood Mitigation Assistance Program	83.536	36,265
Public Assistance Grants	83.544	2,378,687
First Responder Counter Terrorism Training Assistance	83.547	66,910
Hazard Mitigation Grant	83.548	2,953,540
Emergency Management Performance Grants	83.552	* 1,515,929
State Fire Training Systems Grants	83.553	23,842
Cooperating Technical Partners	83.555	195,608
Pre-Disaster Mitigation Grant	83.557	56,428
State and Local All Hazards Emergency Operations Planning	83.562	220,035
Emergency Operations Centers	83.563	45,757
Citizens Corps	83.564	62,537
Total Federal Emergency Management Agency		\$ 7,633,387
General Services Administration		
Election Reform Payments	39.011	\$ 75,197
Total General Services Administration		\$ 75,197
Health and Human Services, U.S. Department of		
Public Health and Social Services Emergency Fund	93.003	\$ 80,278
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	39,756
Special Programs for the Aging—Title VII, Chapter 2—Long Term Care Ombudsman Services for Older Individuals	93.042	82,296
Special Programs for the Aging—Title III, Part D—Disease Prevention and Health Promotion Services	93.043	149,014
Aging Cluster:		
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	* 2,260,557
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	* 3,851,926
Special Programs for the Aging—Title IV and Title II—Discretionary Projects	93.048	504,145
Nation Family Caregiver Support	93.052	777,127
Nutrition Services Incentive Program	93.053	341,157
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SECD)	93.104	3,818,543
Maternal and Child Health Federal Consolidated Programs	93.110	251,893
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	262,691
Emergency Medical Services for Children	93.127	66,036
Primary Care Services—Resource Coordination and Development	93.130	119,134

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

Federal Agency/Program Title	CFDA or Grant #	2003	
		State Agency	Expenditures
Health and Human Services, U.S. Department of, Continued			
Injury Prevention and Control Research and State and Community-Based Programs	93.136	Health and Human Services System	557,255
Projects for Assistance in Transition from Homelessness	93.150	Health and Human Services System	301,359
Childhood Lead Poisoning Prevention Projects—State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	Health and Human Services System	228,601
Family Planning—Services	93.217	Health and Human Services System	1,574,256
Consolidated Knowledge Development and Application (KD&A) Program	93.230	Health and Human Services System	89,422
Traumatic Brain Injury—State Demonstration Grant Program	93.234	Education, Department of	49,709
Absentee Education	93.235	Health and Human Services System	125,763
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	Health and Human Services System	1,601
State Rural Hospital Flexibility Program	93.241	Health and Human Services System	732,890
Universal Newborn Hearing Screening	93.251	Health and Human Services System	43,400
Rural Access to Emergency Devices Grant	93.259	Health and Human Services System	224,746
Immunization Grants	93.268	Health and Human Services System	5,812,922
Drug Abuse Research Programs	93.279	Health and Human Services System	26,775
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	Health and Human Services System	5,904,430
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	Labor, Department of	36,545
Small Rural Hospital Improvement Grants	93.301	Health and Human Services System	666,461
Promoting Safe and Stable Families	93.556	Health and Human Services System	1,218,740
Temporary Assistance for Needy Families	93.558	Health and Human Services System	43,566,091
Child Support Enforcement	93.563	Health and Human Services System	27,262,361
Refugee and Entrant Assistance—State Administered Programs	93.566	Health and Human Services System	980,046
Low-Income Home Energy Assistance	93.568	Health and Human Services System	16,974,338
Community Services Block Grant	93.569	Health and Human Services System	4,503,826
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	Health and Human Services System	18,903
Child Care Cluster:			
Child Care and Development Block Grant	93.575	Health and Human Services System	16,557,325
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Health and Human Services System	16,983,603
Refugee and Entrant Assistance—Discretionary Grants	93.576	Education, Department of	168,084
Refugee and Entrant Assistance—Discretionary Grants	93.576	Health and Human Services System	25,240
Refugee and Entrant Assistance—Targeted Assistance	93.584	Health and Human Services System	322,631
State Court Improvement Program	93.586	Supreme Court, Nebraska	97,986
Welfare Reform Research, Evaluations, and National Studies	93.595	Health and Human Services System	136,167
Grants to States for Access and Visitation Programs	93.597	Health and Human Services System	67,903
Head Start	93.600	Education, Department of	125,941
Adoptive Incentive Payments	93.603	Health and Human Services System	175,768
Runaway and Homeless Youth	93.623	Health and Human Services System	228,601
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Health and Human Services System	446,770
Children's Justice Grants to States	93.643	Health and Human Services System	150,498
Child Welfare Services—State Grants	93.645	Health and Human Services System	1,295,739
Foster Care—Title IV-E	93.658	Health and Human Services System	26,232,375
Adoption Assistance	93.659	Health and Human Services System	5,978,479
Social Services Block Grant	93.667	Health and Human Services System	10,065,949
Child Abuse and Neglect State Grants	93.669	Health and Human Services System	151,427
Family Violence Prevention and Services/Grants for Battered Women's Shelters—Grants to States and Indian Tribes	93.671	Health and Human Services System	977,599
Chafee Foster Care Independent Living	93.674	Health and Human Services System	1,473,643
State Children's Insurance Program (CHIP)	93.767	Health and Human Services System	20,773,901
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	Health and Human Services System	606,625
Medicaid Cluster:			
Medicaid—Supplementary Medical Insurance	93.774	Health and Human Services System	530,657
State Survey and Certification of Health Care Providers and Suppliers	93.777	Health and Human Services System	3,852,350
Medical Assistance Program (Medicaid)	93.778	Health and Human Services System	847,140,610

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

Federal Agency/Program Title	State Agency	CFDA or Grant #	2003 Expenditures
Health and Human Services, U.S. Department of, Continued			
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	Health and Human Services System	93.779	472,793
Centers for Medicare and Medicaid (CMS) Research, Demonstrations, and Evaluations	Insurance, Department of	93.779	170,686
Grants to States for Operation of Offices of Rural Health	Health and Human Services System	93.913	100,781
HIV Care Formula Grants	Health and Human Services System	93.917	1,684,356
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	Health and Human Services System	93.919	2,879,503
Healthy Start Initiative	Health and Human Services System	93.926	41,734
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938	75,051
HIV Prevention Activities—Health Department Based	Health and Human Services System	93.938	4,500
HIV Demonstration, Research, Public, and Professional Education Projects	Health and Human Services System	93.940	1,389,330
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services System	93.941	17,068
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services System	93.944	120,924
Block Grants for Community Mental Health Services	Health and Human Services System	93.945	323,578
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services System	93.958	2,098,004
Preventive Health Services—Sexually Transmitted Diseases Control Grants	Health and Human Services System	93.959	7,121,834
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services System	93.977	249,919
Preventive Health and Health Services Block Grant	Health and Human Services System	93.988	273,446
Maternal and Child Health Services Block Grant to the States	Health and Human Services System	93.991	1,729,682
SSI/SSDI Reimbursement	Health and Human Services System	93.994	3,959,245
National Center for Health Statistics	Education, Department of	96.006	85,812
Medicated Feed Inspection	Health and Human Services System	200-2000-07227 / 26.99C	106,728
Food/Grain Warehouse Inspection	Agriculture, Department of	223-00-4007	11,365
FDA Partnership Agreement	Agriculture, Department of	223-00-4032	35,842
	Agriculture, Department of	223-00-4079	23,469
	N/A		6,105
			\$ 1,101,052,619
Total Health and Human Services, U.S. Department of			
Housing & Urban Development, U.S. Department of			
Community Development Block Grants/State's Program	Economic Development, Department of	14.228	18,662,649
Emergency Shelter Grants Program	Health and Human Services System	14.231	519,370
HOME Investment Partnerships Program	Economic Development, Department of	14.239	3,351,200
Fair Housing Assistance Program—State and Local	Equal Opportunity Commission	14.401	319,650
Healthy Homes Demonstration Grants	Health and Human Services System	14.901	50,482
Manufactured Homes	Public Service Commission	DUI00K900016698	16,226
			\$ 22,919,577
Total Housing & Urban Development, U.S. Department of			
Interior, U.S. Department of			
Fish and Wildlife Cluster:			
Sport Fish Restoration	Game and Parks Commission	15.605	3,478,373
Wildlife Restoration	Game and Parks Commission	15.611	3,076,504
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	3,525
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	681,105
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	49,985
Wildlife Conservation and Restoration	Game and Parks Commission	15.625	86,747
Landowner Incentive	Game and Parks Commission	15.633	1,156
State Wildlife Grants	Game and Parks Commission	15.634	287,902
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	640,130
Outdoor Recreation—Acquisition, Development, and Planning (Land and Water Conservation Fund Grants)	Game and Parks Commission	15.916	1,147,895
Small Reclamation Projects	Game and Parks Commission	15.BBA	115,648
Bureau of Reclamation	Historical Society	15.BBE	24,873
			\$ 9,593,843

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

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the fiscal year ended June 30, 2003

Federal Agency/Program Title	CFDA or Grant #	2003 Expenditures
Justice, U.S. Department of		
State Domestic Preparedness Equipment Support Program	16.007	\$ 511,711
Sex Offender Management Discretionary Grant	16.203	881
Juvenile Accountability Incentive Block Grant	16.523	2,221,905
Technical Assistance and Training Initiative	16.526	1,374
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	695,555
Missing Children's Assistance	16.543	257,395
Title V Delinquency Prevention Program	16.548	208,871
Part E State Challenge Activities	16.549	88,289
State Justice Statistics Program for Statistical Analysis Centers	16.550	52,960
National Criminal History Improvement Program	16.554	1,049,841
Crime Victim Assistance	16.575	2,607,496
Crime Victim Compensation	16.576	123,008
Byrne Formula Grant Program	16.579	3,826,426
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	196,808
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	81,812
Violence Against Women Formula Grants	16.588	1,011,402
Residential Substance Abuse Treatment for State Prisoners	16.593	84,835
State Criminal Alien Assistance Program	16.606	471,467
Public Safety Partnership and Community Policing Grants	16.710	235,480
Enforcing Underage Drinking Laws Programs	16.727	375,000
Training Center Renovation	78.99A	60,000
CJIS Project Manager	78.99B	26,982
CJIS Crime History Grants	78.99D	373,920
Sleuth for Task Forces	78.99F	53,207
Operating Task Force (Cash Crop)	93-38	9,299
Criminal Justice Information System	N/A	26,982
Misc. Federal Funds	N/A	2,002
Total Justice, U.S. Department of		\$ 14,654,908
Labor, U.S. Department of		
Labor Force Statistics	17.002	\$ 858,926
Compensation and Working Conditions	17.005	30,250
Labor Certification for Alien Workers	17.203	112,384
Employment Services Cluster:		
Employment Service	17.207	*
Disabled Veterans' Outreach Program	17.801	*
Local Veterans' Employment Representative Program	17.804	*
Unemployment Insurance—Federal	17.225	*
Unemployment Insurance—State	17.225	*
Unemployment Insurance—Admin	17.225	*
Senior Community Service Employment Program	17.235	*
Welfare-to-Work Grants to States and Localities	17.253	617,916
One-Stop Career Center Initiative	17.257	808,677

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

Federal Agency/Program Title	CFDA or Grant #	2003 Expenditures
Labor, U.S. Department of, Continued		
WIA Cluster:		
WIA Adult Program	17,258	3,175,444
WIA Youth Activities	17,259	3,481,349
WIA Dislocated Workers	17,260	2,815,605
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17,261	75,367
Consultation Agreements	17,504	542,264
Total Labor, U.S. Department of		184,742,516
Library of Congress		
Library Archives Film Preservation	N/A	639
Total Library of Congress		639
National Archives and Records Administration		
National Historical Publications and Records Grants	89,003	47,239
Total National Archives and Records Administration		47,239
National Foundation of Arts and the Humanities		
Promotion of the Arts—Partnership Agreements	45,025	430,511
Promotion of the Arts—Leadership Initiatives	45,026	6,038
Institute of Museum and Library Services	45,301	106,355
Institute of Museum and Library Services / Niobrara Basin Resource	45,301	3,865
Conservation Project Support	45,303	7,650
State Library Program	45,310	1,041,986
Total National Foundation of Arts and the Humanities		1,596,405
Social Security Administration		
Social Security—Disability Insurance	96,001	7,471,247
Total Social Security Administration		7,471,247
Transportation, U.S. Department of		
Boating Safety Financial Assistance	20,005	302,744
Airport Improvement Program	20,106	17,523,123
Highway Planning and Construction	20,205	199,172,626
National Motor Carrier Safety	20,218	1,686,866
Formula Grants for Other Than Urbanized Areas	20,509	2,113,465
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20,513	974,154
State Planning and Research	20,515	(32,044)
Highway Safety Cluster:		
State and Community Highway Safety	20,600	1,572,911
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20,601	497,510
Occupant Protection	20,602	75,618
Federal Highway Safety Data Improvements Incentive Grants	20,603	17,602
Safety Incentive Grants for Use of Seatbelts	20,604	38,081

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards—By Federal Agency

For the fiscal year ended June 30, 2003

Federal Agency/Program Title	CFDA or Grant #	2003 Expenditures
Transportation, U.S. Department of, Continued		
Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons		
Pipeline Safety	20.605	64,826
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.700	20,715
Highway-Related Safety Grants	20.703	147,849
Cash Outcome Data Evaluation	DTMH22-87-C-0-76	44,282
Innovative Funding Under Section 157	DTNH22-98-H-07086 / 26.99B	87,000
Joint Federal-State Motor Fuel Tax Compliance Project	N/A	394,826
Total Transportation, U.S. Department of	TCP-0001003	<u>11,572</u>
		<u>\$ 224,713,726</u>
Treasury, U.S. Department of		
Investigative Forfeiture	N/A	1,554
Total Treasury, U.S. Department of		<u>1,554</u>
U.S. Forest Service		
USFS T&E and Sensitive Species	N/A	8,310
Total U.S. Forest Service		<u>8,310</u>
United States Coast Guard		
Highway Training and Education	20.215	48,383
Federal Highway Safety Data Improvements Incentive Grants	20.603	8,450
Total United States Coast Guard		<u>56,833</u>
Veterans Affairs, U.S. Department of		
Grants to States for Construction of State Home Facilities	64.005	1,362,046
Veterans State Domiciliary Care	64.014	521,307
Veterans State Nursing Home Care	64.015	9,164,288
Total Veterans Affairs, U.S. Department of		<u>11,047,641</u>
TOTAL FEDERAL AWARDS		
		<u>\$ 1,987,282,345</u>

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards—By State Agency
For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Aeronautics, Department of		
Airport Improvement Program	20.106	\$ 17,523,123
Total Aeronautics, Department of		\$ 17,523,123
Agriculture, Department of		
Plant and Animal Disease, Pest Control, and Animal Care		
State Mediation Grants	10.025	\$ 226,429
WIC Farmers' Market Nutrition Program	10.435	137,695
Consolidated Pesticide Enforcement Cooperative Agreements	10.572	164,000
Nebraska Plant Pest Homeland Security Project	66.700	573,418
Homeland Security Cooperative Agreement	02-8456-0601-CA	58,163
National Organic Certification Cost—Share Program	02.9731-0301 CA	37,081
Tissue Residue Inspections	12-25-A-1160	5,022
Medicated Feed Inspection	223-00-4007	11,365
Food Grain Warehouse Inspection	223-00-4032	35,842
Food Safety Task Force on Meat & Poultry Processing	223-00-4079	23,469
State Grants to Promote Agriculture and the Emergency Food Assistance Program	FSS 18-B-02	6,312
Nebraska Rural Rehabilitation Program	N/A	464,886
FDA Partnership Agreement	N/A	480,695
Total Agriculture, Department of	N/A	\$ 2,230,482
Arts Council		
Promotion of the Arts—Partnership Agreements	45.025	\$ 430,511
Promotion of the Arts—Leadership Initiatives	45.026	6,038
Total Arts Council		\$ 436,549
Blind and Visually Impaired Commission		
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	* \$ 2,492,566
Independent Living—State Grants	84.169	34,379
Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	84.177	197,136
Supported Employment Services for Individuals with Severe Disabilities	84.187	13,547
Rehabilitation Services Demonstration and Training Programs	84.235	271,294
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	68,994
Total Blind and Visually Impaired Commission		\$ 3,077,916
Corrections, Department of		
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	\$ 81,812
State Criminal Alien Assistance Program	16.606	471,467
Grants to States for Incarcerated Youth Offenders	84.331	75,551
Total Corrections, Department of		\$ 628,830
Economic Development, Department of		
Manufacturing Extension Partnership	11.611	\$ 110,834
Community Development Block Grants/State's Program	14.228	18,662,649
HOME Investment Partnerships Program	14.239	3,351,200
School to Work Opportunities Program	84.278	94,953
Total Economic Development, Department of		\$ 22,219,636

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STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the fiscal year ended June 30, 2003

State Agency/Program Title Education, Department of	CFDA or Grant #	2003 Expenditures
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 6,492,754
National School Lunch Program	10.555	33,924,560
Special Milk Program for Children	10.556	93,000
Summer Food Service Program for Children	10.559	850,608
Child and Adult Care Food Program	10.558	21,924,523
State Administrative Expenses for Child Nutrition	10.560	882,753
Adult Education—State Grant Program	84.002	2,128,048
Title I Grants to Local Educational Agencies	84.010	34,722,762
Migrant Education—State Grant Program	84.011	4,813,421
Title I Program for Neglected and Delinquent Children	84.013	268,295
Special Education Cluster:		
Special Education—Grants to States	84.027	*
Special Education—Preschool Grants	84.173	*
Vocational Education—Basic Grants to States	84.048	*
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	11,738,769
Rehabilitation Services—Client Assistance Program	84.161	134,280
Immigrant Education	84.162	420,379
Independent Living—State Grants	84.169	274,678
Special Education—Grants for Infants and Families with Disabilities	84.181	2,009,885
Safe and Drug-Free Schools and Communities—National Programs	84.184	102,500
Byrd Honors Scholarships	84.185	249,000
Safe and Drug-Free Schools and Communities—State Grants	84.186	1,936,124
Supported Employment Services for Individuals with Severe Disabilities	84.187	270,001
Bilingual Education Support Services	84.194	2,580
Education for Homeless Children and Youth	84.196	138,103
Star Schools	84.203	7,397
Even Start—State Educational Agencies	84.213	1,091,626
Fund for the Improvement of Education	84.215	214,258
Capital Expenses	84.216	15,860
Assistive Technology	84.224	369,728
Teach-Prep Education	84.243	723,204
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	32,385
Goals 2000—State and Local Education Systemic Improvement Grants	84.276	1,161,440
Eisenhower Professional Development State Grants	84.281	1,566,762
Twenty-First Century Community Learning Centers	84.287	52,969
Innovation Education Program Strategies	84.298	1,882,529
Education Technology State Grants	84.318	1,832,475
Special Education—State Program Improvement Grants for Children with Disabilities	84.323	606,527
Special Education—Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities	84.326	311,788
Advanced Placement Program	84.330	4,704
Comprehensive School Reform Demonstration	84.332	1,117,325
Teacher Quality Enhancement Grants	84.336	887,794
Class Size Reduction	84.340	4,622,541
Preparing Tomorrow's Teachers to Use Technology	84.342	425,794
Vocational Education—Occupational and Employment Information State Grants	84.346	126,339
Title I Accountability Grants	84.348	193,120
Early Childhood Educator Professional Development	84.349	325,361
Transition to Teaching	84.350	118,545
School Renovation Grants	84.352	3,840,716

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STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Education, Department of, Continued		
Rural Education	84.358	16,042
English Language Acquisition Grants	84.365	630,992
Improving Teacher Quality State Grants	84.367	2,339,727
Grants for State Assessments and Related Activities	84.369	904,757
Traumatic Brain Injury—State Demonstration Grant Program	93.234	49,709
Refugee and Entrant Assistance—Discretionary Grants	93.576	168,084
Head Start	93.600	125,941
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	75,051
Learn and Serve America—School and Community-Based Programs	94.004	87,280
Social Security—Disability Insurance	96.001	7,471,247
SSI/SSDI Reimbursement	96.006	85,812
Total Education, Department of		\$ 219,355,867
Educational Telecommunications Commission		
Public Telecommunications Facilities—Planning and Construction	11.550	\$ 3,970,959
Total Educational Telecommunications Commission		\$ 3,970,959
Environmental Quality, Department of		
Water Pollution Control—State and Interstate Program Support	66.419	\$ 110,957
State Underground Water Source Protection	66.433	66,230
Water Quality Management Planning	66.454	62,446
Capitalization Grants for Clean Water State Revolving Funds	66.458	* 4,036,225
Nonpoint Source Implementation Grants	66.460	3,420,893
Wetland Program Development Grants	66.461	18,834
Capitalization Grants for Drinking Water State Revolving Fund	66.468	7,661,481
Hardship Grant Program Rural Communities	66.470	67,913
Performance Partnership Grants	66.605	3,820,058
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	496,083
Training and Fellowships for the Environmental Protection Agency	66.607	34,241
State Information Grants	66.608	424,239
Pollution Prevention Grants Program	66.708	143,536
Capacity Building Grants and Cooperative Agreements for States and Tribes	66.709	1,600
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	263,442
Leaking Underground Storage Tank Trust Fund Program	66.805	811,878
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	351,964
Defense Environmental Restoration Program	NE-03-1	115,864
Long Pine Rural Clean Water Program	N/A	7,962
Total Environmental Quality, Department of		\$ 21,915,936
Equal Opportunity Commission		
Fair Housing Assistance Program—State and Local	14.401	\$ 319,650
Employment Discrimination—Title VII of the Civil Rights Act of 1964	30.001	679,609
Total Equal Opportunity Commission		\$ 999,259
Fire Marshal		
Pipeline Safety	20.700	\$ 20,715
Environmental Protection Consolidated Grants—Program Support	66.600	127,208
First Responder Counter Terrorism Training Assistance	83.547	66,910
State Fire Training Systems Grants	83.553	23,842
Total Fire Marshal		\$ 238,675
Housing & Urban Development, U.S. Department of		
Equal Employment Opportunity Commission, U.S.		
Transportation, U.S. Department of		
Environmental Protection Agency, U.S.		
Federal Emergency Management Agency		
Federal Emergency Management Agency		

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STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Game and Parks Commission		
Small Reclamation Projects	15.BBA	\$ 115,648
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	*
Wildlife Restoration	15.611	*
Fish and Wildlife Management Assistance	15.608	3,525
Cooperative Endangered Species Conservation Fund	15.615	681,105
Wildlife Conservation and Appreciation	15.617	49,985
Wildlife Conservation and Restoration	15.625	86,747
Landowner Incentive	15.633	1,156
State Wildlife Grants	15.634	287,902
Outdoor Recreation—Acquisition, Development, and Planning (Land and Water Conservation Fund Grants)	15.916	1,147,895
Institute of Museum and Library Services / Niobrara Basin Resource	45.301	3,865
Wetland Program Development Grants	66.461	25,544
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	6,248
Missouri River Stabilization	DACW45-98-P-0526	15,040
Missouri River Ecology	DACW45-01-P-0191	155,736
Natural Heritage Data Enhancement	N/A	2,604
USFS T&E and Sensitive Species	N/A	8,310
Total Game and Parks Commission		\$ 9,448,931
GOVERNOR		
National Energy Information Center	81.039	\$ 6,000
State Energy Program	81.041	370,635
Weatherization Assistance for Low-Income Persons	81.042	2,329,208
Regional Biomass Energy Programs	81.079	371,912
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	50,002
State Energy Program Special Projects	81.119	146,580
Oil Overcharge Settlements—Amoco	N/A	6,754
Oil Overcharge Settlements—Stripper Well	N/A	5,407
Oil Overcharge Settlements—Diamond Shamrock	N/A	1,813
Total Governor		\$ 3,288,321
Health and Human Services System		
Food Donation	10.550	7,749,310
Food Stamp Cluster:		
Food Stamps	10.551	93,267,446
State Administrative Matching Grants for Food Stamp Program	10.561	13,330,306
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	21,122,734
State Administrative Expenses for Child Nutrition	10.560	59,816
Commodity Supplemental Food Program	10.565	3,123,479
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	361,052
Emergency Food Assistance Program (Food Commodities)	10.569	1,197,675
Nutrition Services Incentive	10.570	1,025,182
Emergency Shelter Grants Program	14.231	519,370
Healthy Homes Demonstration Grants	14.901	50,482
Sex Offender Management Discretionary Grant	16.203	881
Senior Community Service Employment Program	17.235	617,916
Grants to States for Construction of State Home Facilities	64.005	1,362,046
Veterans State Domiciliary Care	64.014	521,307
Veterans State Nursing Home Care	64.015	9,164,288
State Indoor Radon Grants	66.032	205,648

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards—By State Agency
For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Health and Human Services Systems, Continued		
State Public Water System Supervision	66.432	846,725
Water Protection Grants to the States	66.471	32,885
Water Protection Operators of Small Water Systems for Training and Certification Costs	66.474	38,820
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	266,635
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	77,159
Safe and Drug Free Schools and Communities—State Grants	84.186	85,131
Public Health and Social Services Emergency Fund	93.003	80,278
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	39,756
Special Programs for the Aging—Title VII, Chapter 2—Long Term Care Ombudsman Services for Older Individuals	93.042	82,296
Special Programs for the Aging—Title III, Part D—Disease Prevention and Health Promotion Services	93.043	149,014
Aging Cluster:		
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	2,260,557
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	3,851,926
Special Programs for the Aging—Title IV and Title II—Discretionary Projects	93.048	504,145
Nation Family Caregiver Support	93.052	777,127
Nutrition Services Incentive Program	93.053	341,157
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	3,818,543
Maternal and Child Health Federal Consolidated Programs	93.110	251,893
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	262,691
Emergency Medical Services for Children	93.127	66,056
Primary Care Services—Resource Coordination and Development	93.130	119,134
Injury Prevention and Control Research and State And Community-Based Programs	93.136	557,255
Projects for Assistance in Transition from Homelessness	93.150	301,359
Childhood Lead Poisoning Prevention Projects—State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	228,601
Family Planning—Services	93.217	1,574,256
Consolidated Knowledge Development and Application (KD&A) Program	93.230	89,422
Absentee Education	93.235	125,763
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	1,601
State Rural Hospital Flexibility Program	93.241	732,890
Universal Newborn Hearing Screening	93.251	43,400
Rural Access to Emergency Devices Grant	93.259	224,746
Immunization Grants	93.268	5,812,922
Drug Abuse Research Programs	93.279	26,775
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	5,904,430
Small Rural Hospital Improvement Grants	93.301	666,461
Promoting Safe and Stable Families	93.556	1,218,740
Temporary Assistance for Needy Families	93.558	43,566,091
Child Support Enforcement	93.563	27,262,361
Refugee and Entrant Assistance—State Administered Programs	93.566	980,046
Low-Income Home Energy Assistance	93.568	16,974,338
Community Services Block Grant	93.569	4,503,826
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	18,903
Child Care Cluster:		
Child Care and Development Block Grant	93.575	16,557,325
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	16,983,603
Refugee and Entrant Assistance—Discretionary Grants	93.576	25,240
Refugee and Entrant Assistance—Targeted Assistance	93.584	322,631
Welfare Reform Research, Evaluations, and National Studies	93.595	136,167
Grants to States for Access and Visitation Programs	93.597	67,903
Adoptive Incentive Payments	93.603	175,768
Runaway and Homeless Youth	93.623	228,601
Developmental Disabilities Basic Support and Advocacy Grants	93.630	446,770

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards—By State Agency
For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Health and Human Services Systems, Continued		
Children's Justice Grants to States	93.643	150,498
Child Welfare Services—State Grants	93.645	1,295,739
Foster Care—Title IV-E	93.645	* ^
Adoption Assistance	93.658	26,232,375
Social Services Block Grant	93.659	^
Child Abuse and Neglect State Grants	93.667	10,065,949
Family Violence Prevention and Services/Grants for Battered Women's Shelters—Grants to States and Indian Tribes	93.669	151,427
Chafee Foster Care Independent Living	93.671	977,599
State Children's Insurance Program (CHIP)	93.674	1,473,643
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.767	^
Medicare—Supplementary Medical Insurance	93.768	606,625
Medicaid Cluster:	93.774	^
State Survey and Certification of Health Care Providers and Suppliers		530,657
Medical Assistance Program (Medicaid)	93.777	* ^
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.778	* ^
Grants to States for Operation of Offices of Rural Health	93.779	847,140,610
HIV Care Formula Grants	93.913	472,793
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.917	100,781
Healthy Start Initiative	93.919	1,684,356
HIV Prevention Activities—Health Department Based	93.926	2,879,503
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.940	41,734
Assistance Programs for Chronic Disease Prevention and Control	93.941	1,389,330
Block Grants for Prevention and Treatment of Substance Abuse	93.944	17,068
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.945	120,924
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.958	323,578
Preventive Health and Health Services Block Grant	93.959	2,098,004
Maternal and Child Health Services Block Grant to the States	93.977	7,121,834
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.988	249,919
State Commissions	93.991	273,446
AmserCorps	93.994	1,729,682
Planning and Program Development Grants	93.994	3,959,245
Training and Technical Assistance	93.938	4,500
National Center for Health Statistics	94.003	154,724
Crash Outcome Data Evaluation	94.006	1,301,710
Total Health and Human Services System		166,705
Historical Society		
Historic Preservation Fund Grants-In-Aid	15.904	640,130
Institute of Museum and Library Services	45.301	106,355
Conservation Project Support	45.303	7,650
National Historical Publications and Records Grants	89.003	47,239
Bureau of Reclamation	15.BB8	24,873
Library Archives Film Preservation	N/A	639
Total Historical Society		826,886
Insurance, Department of		
Centers for Medicare and Medicaid (CMS) Research, Demonstrations, and Evaluations	93.779	170,686
Total Insurance, Department of		170,686
		\$ 1,256,966,024

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards—By State Agency
For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Labor, Department of		
Labor Force Statistics	17,002	\$ 858,926
Labor Certification for Alien Workers	17,203	112,384
Employment Services Cluster:		
Employment Service		
Disabled Veterans' Outreach Program	17,207	* 6,639,272
Local Veterans' Employment Representative Program	17,801	* 536,613
Unemployment Insurance—Federal	17,804	* 367,481
Unemployment Insurance—State	17,225	* 31,450,922
Unemployment Insurance—Admin	17,225	* 120,254,165
Workforce Investment Act Cluster:		
WIA Adult Program	17,258	* 3,175,444
WIA Youth Activities	17,259	* 3,481,349
WIA Dislocated Workers	17,260	* 2,815,605
Welfare-to-Work Grants to States and Localities	17,253	1,050,927
One-Stop Career Center Initiative	17,257	808,677
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17,261	75,367
Consultation Agreements	17,504	542,264
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93,283	36,545
Total Labor, Department of		\$ 181,130,895
Law Enforcement and Criminal Justice, Commission for		
State Justice Statistics Program for Statistical Analysis Centers	16,550	\$ 52,960
Juvenile Accountability Incentive Block Grant	16,523	2,221,905
Technical Assistance and Training Initiative	16,526	1,374
Juvenile Justice and Delinquency Prevention—Allocation to States	16,540	695,555
Title V Delinquency Prevention Program	16,548	208,871
Part E State Challenge Activities	16,549	88,289
Crime Victim Assistance	16,575	2,607,496
Crime Victim Compensation	16,576	123,008
Byrne Formula Grant Program	16,579	3,826,426
Violence Against Women Formula Grants	16,588	1,011,402
Residential Substance Abuse Treatment for State Prisoners	16,593	84,835
Highway Training and Education	20,215	48,383
Federal Highway Safety Data Improvements Incentive Grants	20,603	8,450
Training Center Renovation	78,99A	60,000
CJIS Project Manager	78,99B	26,982
CJIS Crime History Grants	78,99D	373,920
Sleuth for Task Forces	78,99F	53,207
Misc Federal Funds	N/A	2,002
Criminal Justice Information System	N/A	26,982
Total Law Enforcement and Criminal Justice, Commission for		\$ 11,522,047
Library Commission		
State Library Program	45,310	1,041,986
Total Library Commission		\$ 1,041,986

National Foundation of Arts and the Humanities

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards—By State Agency
For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Military Department		
National Guard Military Operations and Maintenance (O&M) Projects	12,401	\$ 8,936,828
State Domestic Preparedness Equipment Support Program	16,007	511,711
Interagency Hazardous Materials Public Sector Training and Planning Grants	20,703	147,849
Public Assistance Grants	83,544	2,378,687
Hazard Mitigation Grant	83,548	2,953,540
Emergency Management Performance Grants	83,552	1,515,929
Pre-Disaster Mitigation Grant	83,557	56,428
State and Local All Hazards Emergency Operations Planning	83,562	220,035
Emergency Operations Centers	83,563	45,757
Citizens Corps	83,564	62,337
Total Military Department		\$ 16,829,301
Motor Vehicles, Department of		
Enforcing Underage Drinking Laws Programs	16,727	\$ 375,000
Highway Safety Cluster:		
State and Community Highway Safety	20,600	1,572,911
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20,601	497,510
Occupant Protection	20,602	75,618
Federal Highway Safety Data Improvements Incentive Grants	20,603	17,602
Safety Incentive Grants for Use of Seatbelts	20,604	38,081
Innovative Funding Under Section 157	N/A	394,826
Total Motor Vehicles, Department of		\$ 2,971,548
Natural Resources, Department of		
Community Assistance Program	83,105	\$ 77,849
Flood Mitigation Assistance Program	83,536	36,265
Cooperating Technical Partners	83,555	195,608
Total Natural Resources, Department of		\$ 309,722
Oil and Gas Commission		
State Underground Water Source Protection	66,433	\$ 92,495
Total Oil and Gas Commission		\$ 92,495
Postsecondary Education, Coordinating Commission for		
Leveraging Educational Assistance Partnerships	84,069	\$ 585,386
Eisenhower Professional Development State Grants	84,281	322,656
Total Postsecondary Education, Coordinating Commission for		\$ 908,042
Public Service Commission		
Manufactured Homes	DU100K900016698	\$ 16,226
Total Public Service Commission		\$ 16,226
Revenue, Department of		
Joint Federal-State Motor Fuel Tax Compliance Project	TCP-0001003	\$ 11,572
Investigative Forfeiture	N/A	1,554
Total Revenue, Department of		\$ 13,126

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

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the fiscal year ended June 30, 2003

State Agency/Program Title	CFDA or Grant #	2003 Expenditures
Roads, Department of		
Highway Planning and Construction	20,205	\$ 199,172,626
Formula Grants for Other Than Urbanized Areas	20,509	2,113,465
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20,513	974,154
State Planning and Research	20,515	(32,044)
Highway Related Safety Grants	DTMH22-87-C-0-76	44,282
Total Roads, Department of		<u>\$ 202,272,483</u>
Rural Development Commission		
National Rural Development Partnership	43-3157-8-RDP03	\$ 172,446
Total Rural Development Commission		<u>\$ 172,446</u>
Secretary of State		
Election Reform Payments	39,011	\$ 75,197
Total Secretary of State		<u>\$ 75,197</u>
State Patrol		
Missing Children's Assistance	16,543	\$ 257,395
National Criminal History Improvement Program	16,554	1,049,841
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16,580	196,808
Public Safety Partnership and Community Policing Grants	16,710	235,480
National Motor Carrier Safety	20,218	1,686,866
Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons	20,605	64,826
Operating Task Force (Cash Crop)	93-38	9,299
Total State Patrol		<u>\$ 3,500,515</u>
Supreme Court, Nebraska		
State Court Improvement Program	93,586	\$ 97,986
Total Supreme Court, Nebraska		<u>\$ 97,986</u>
Workers' Compensation Court		
Compensation and Working Conditions	17,005	\$ 30,250
Total Workers' Compensation Court		<u>\$ 30,250</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,987,282,345</u>

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

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Note 1: General

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

Note 2: Summary of Significant Accounting Policies

A. Reporting Entity

The State's reporting entity is defined in note 1B to the basic financial statements. The accompanying Schedule includes the federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2003.

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

University of Nebraska
Nebraska State College System

B. Basis of Presentation

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

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

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

C. Basis of Accounting

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

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

Note 3: Nonmonetary Assistance Inventory

As described in note 2, nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2003, the following inventories of nonmonetary assistance at the State level existed:

Assistance	Inventory balance at June 30, 2003
Food Stamps	\$ 14,014
Food Commodities	1,831,657
Vaccines	1,836,501

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Note 4: Commodity Supplemental Food Program and Childhood Immunization Grants

As described in note 2, included in expenditures for the Commodity Supplemental Food program are \$2,393,721 of nonmonetary federal assistance in the form of food commodities. The U.S. Department of Agriculture, upon direction from the HHSS, delivers the commodities directly to the subrecipients for distribution. Included in the expenditures for the Childhood Immunization Grants is \$3,874,916 of nonmonetary federal assistance in the form of vaccines.

Note 5: Federal Loans Outstanding

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

CFDA #	Program	Outstanding balance at June 30, 2003
20.308	Local Rail Freight Assistance Loan Program	\$ 95,798
66.458	Capitalization Grants for Clean Water State Revolving Funds	91,183,380
66.468	Capitalization Grants for Drinking Water State Revolving Fund	38,086,916
84.176	Paul Douglass Teacher Scholarship Loan Program	194,598

New loans from these programs in the amount of \$10,542,502 are included as current year expenditures.

Note 6: Oil Overcharge Settlement Funds

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

Note 7: Airport Improvement Program

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



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

**Independent Auditors' Report On Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited the basic financial statements of the State of Nebraska as of and for the year ended June 30, 2003, and have issued our report thereon dated June 11, 2004. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 12.3% and 6.3% of the assets and revenues, respectively, of the aggregate remaining fund information. The Nebraska State Lottery enterprise fund represents 4.5% and 37.4% of the assets and revenues, respectively, of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information and their effects on the business-type activities is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Nebraska's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item #03-12-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to

our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the State of Nebraska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #03-12-01, #03-65-01, #03-65-02, and #03-65-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition items #03-12-01, #03-65-01, #03-65-02, and #03-65-03 identified above to be material weaknesses.

We also noted other matters involving internal control over financial reporting that we have reported to the management of the respective State agencies in separate letters dated June 11, 2004.

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

KPMG LLP

Lincoln, Nebraska
June 11, 2004



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

**Independent Auditors' Report on Compliance With Requirements Applicable
to Each Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the State of Nebraska with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The State of Nebraska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Nebraska's management. Our responsibility is to express an opinion on the State of Nebraska's compliance based on our audit.

The basic financial statements of the State of Nebraska include the operations of component units, which received federal awards during the year ended June 30, 2003. Our audit, described below, did not include the operations of the component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

Scope Limitations

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

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
93.775, 93.777, and 93.778	Medicaid Cluster	Special Tests and Provisions	03-26-06

Qualifications

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

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
15.904	Historic Preservation Fund Grants-In-Aid	Allowable Costs/Cost Principles	03-54-01
66.458	Capitalization Grants for Clean Water	Reporting	03-84-02
66.458	Capitalization Grants for Clean Water	Subrecipient monitoring	03-84-03
83.552	Emergency Management Performance Grants	Allowable Costs/Cost Principles	03-31-01
83.552	Emergency Management Performance Grants	Subrecipient Monitoring	03-31-02
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	03-26-03
93.563	Child Support Enforcement	Subrecipient Monitoring	03-26-04
93.775, 93.777, and 93.778	Medicaid Cluster	Cash Management	03-26-07

In our opinion, except for noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements described in the second preceding paragraph, the State of Nebraska complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item #03-13-01.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Nebraska's ability to administer a major federal program in accordance with

applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #03-23-01, #03-26-01, #03-26-03, #03-26-04, #03-26-05, #03-26-06, #03-26-07, #03-26-08, #03-31-01, #03-31-02, #03-54-01, #03-84-01, #03-84-02, and #03-84-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items #03-26-01, #03-84-02, and #03-84-03 to be material weaknesses.

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

KPMG LLP

Lincoln, Nebraska
June 11, 2004

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

I. Summary of Auditors' Results

- a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unqualified.
- b) Reportable conditions in internal control were disclosed by the audit of the financial statements and are included in the schedule of findings and questioned costs in Part II as items #03-12-01, #03-65-01, #03-65-02, and #03-65-03, all of which are also considered material weaknesses.
- c) The audit disclosed an instance of noncompliance, which is material to the State's basic financial statements and is included in the schedule of findings and questioned costs in Part II as item #03-12-01.
- d) Reportable conditions in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as items #03-23-01, #03-26-01, #03-26-03, #03-26-04, #03-26-05, #03-26-06, #03-26-07, #03-26-08, #03-31-01, #03-31-02, #03-54-01, #03-84-01, #03-84-02, and #03-84-03.

We consider items #03-26-01, #03-84-02, and #03-84-03 to be material weaknesses in internal control over the major programs.

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

CFDA #14.228	Community Development Block Grant
CFDA #'s 15.605 and 15.611	Fish and Wildlife Cluster
CFDA #'s 17.207, 17.801, and 17.804	Employment Services Cluster
CFDA #17.225	Unemployment Insurance
CFDA #'s 17.258, 17.259, and 17.260	Workforce Investment Act Cluster
CFDA #66.458	Capitalization Grants for Clean Water State Revolving Funds
CFDA #83.552	Emergency Management Performance Grants
CFDA #'s 84.027 and 84.173	Special Education Cluster
CFDA #84.048	Vocational Education—Basic Grants to States
CFDA #84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
CFDA #'s 93.044 and 93.045	Aging Cluster
CFDA #93.268	Immunization Grants
CFDA #93.558	Temporary Assistance for Needy Families
CFDA #93.563	Child Support Enforcement
CFDA #93.568	Low-Income Home Energy Assistance
CFDA #'s 93.575 and 93.596	Child Care Cluster
CFDA #93.658	Foster Care—Title IV-E
CFDA #'s 93.775, 93.777, and 93.778	Medicaid Cluster

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- h) Dollar threshold used to distinguish between Type A and Type B programs: \$6,318,902.
- i) The State did not qualify as a low-risk auditee.

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

DEPARTMENT OF TREASURY

Finding #03-12-01

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

Condition: On March 25, 2003, \$18,086,775 of deposits at a financial institution were not collateralized as required by the above statute.

Questioned Costs: None.

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

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

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

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

DEPARTMENT OF ADMINISTRATIVE SERVICES (DAS)

Finding #03-65-01

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

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

- The variance shifts from month to month, which still indicates unknown reconciling items continue to exist. As of June 30, 2003, the unreconciled variance between the bank balances and the State's accounting records was \$3,654,783, which indicates that the cash balance per the State's accounting records is overstated.
- No adjustment has been made for the portion of the variance that is due to prior errors.
- No adjustments have been made for the carryover reconciling items related to the Investment Council.
- Although a reconciliation is being performed, some reconciling items are not posted to the general ledger at year end.
- The reconciliations are not being performed or reviewed in a timely manner.
- Monitoring and developing procedures to capture reconciling activity from new systems. The SDU also has an unreconciled amount in addition to the above of approximately \$1.9 million.
- Developing an automated daily reconciliation process.

Questioned Costs: None.

Context: Reconciliations were not performed for over eight months and cash is overstated by the above amounts at June 30, 2003.

Cause: Complexity of reconciliation and number of transactions.

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

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

completion. Finally, we recommend the State investigate and begin the implementation of a systematic on-line reconciliation process by utilizing the capabilities of the new accounting system. The implementation of an on-line reconciliation process would further require that the Treasurer's currently manual ledger be maintained on-line.

Finding #03-65-02

Criteria: According to OMB Circular A-133, the State has the responsibility to submit a complete and accurate Schedule of Prior Year Audit Findings (Schedule) and also has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

Condition: The Schedule materially misrepresented the status of prior year findings.

Questioned Costs: None

Context: Twelve of the 20 statuses of prior year audit findings were materially incorrect on the schedule.

Cause: Procedures were not in place to ensure Agencies' responses to the status of prior year findings represented the appropriate status of the finding.

Effect: Inaccurate Schedule and untimely corrective action.

Recommendation: We recommend the Agency implement procedures to ensure that each agency's response to statuses of prior year findings represents the appropriate current status for each finding. Further, we recommend the Agency communicate to the state agencies the proper treatment of prior year findings statuses under OMB Circular A-133, which provides information about when a finding can be shown as corrected.

Finding #03-65-03

Criteria: According to OMB Circular A-133, the State has the responsibility to submit a complete and accurate Schedule of Expenditures of Federal Awards (SEFA) and also has the responsibility to ensure compliance with federal requirements through the use of sound internal controls.

Condition: Expenditures in the SEFA were not accurately reported and controls were not designed and operating effectively.

Questioned Costs: None

Context: Significant corrections were made to the SEFA.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Cause: The State implemented a new accounting system that was to include a process within the system that would automatically develop the SEFA; however, the process was not working properly as many agencies did not post their federal expenditures to appropriate accounts or funds.

Effect: Without adequate controls in place, there is an increased risk of misstatement.

Recommendation: We recommend the Agency develop and implement policies and procedures related to the following:

- A process for ensuring all grants are appropriately recorded in the new accounting system
- A process for ensuring all new grants are properly processed and included on the SEFA
- Request agencies to submit expenditure information and review for accuracy
- Reconcile expenditures to the new accounting system
- Review the SEFA for proper CFDA numbers and program titles
- Require separate individuals to prepare and review the SEFA (adequate segregation of duties)

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

Finding #03-13-01

Program: CFDA #84.048—Vocational Rehabilitation—Reporting

Federal Grantor Agency: U.S. Department of Education

Criteria: The Agency is required to submit a quarterly SF-269, *Financial Status Report*, for all open grants.

Condition: The September 30, 2002 and December 31, 2002 SF-269 for the H126A010039 grant incorrectly reported Cumulative Total Outlays.

Questioned Costs: None.

Context: Cumulative Total Outlays for the grant was underreported on both of the SF-269 reports by \$132,000; however, the error is considered an isolated instance.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Cause: To help complete the SF-269 and to provide evidence the report reconciles to the accounting records, the Agency prepares a spreadsheet to accumulate the appropriate information from the accounting records. The spreadsheet contained an incorrect formula causing indirect costs to be excluded from the Cumulative Total Outlays line item.

Effect: Cumulative Total Outlays was incorrectly reported to the federal agency.

Recommendation: We recommend the Agency correct the formula in the spreadsheet, submit a corrected report, and expand the current review procedures of the spreadsheet to ensure that data is properly reported.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

DEPARTMENT OF LABOR

Finding #03-23-01

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

Federal Grantor Agency: U.S. Department of Labor

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

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

Questioned Costs: None.

Context: Nine of thirty reports selected for testing were not reviewed.

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

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

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

HEALTH AND HUMAN SERVICES SYSTEM

Finding #03-26-01

Program: CFDA #93.658—Foster Care—Title IV-E—Eligibility

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

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

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

Questioned Costs: None.

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

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

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

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

Finding #03-26-02—Not used.

Finding #03-26-03

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

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

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Condition: The Agency currently does not have adequate procedures in place to ensure appropriate action is taken by the caseworkers upon receipt of the notification of non-cooperation. For two cases tested, the file did not have any documentation of notification received by Child Support Enforcement or any subsequent reduction of benefits.

Questioned Costs: None.

Context: For monitoring and control purposes, the Agency relies partly on Food Stamp supervisory reviews; however, this does not cover all notifications. Two of forty cases tested were not in compliance because the caseworker did not reduce or deny benefits in accordance with the requirement.

Cause: Lack of adequate resources.

Effect: Increased risk of benefit overpayments.

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

Finding #03-26-04

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

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

Criteria: A pass-through entity is responsible for:

- *Award Identification*—At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring*—Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits*—Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact*—Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Condition: The Agency's centralized monitoring procedures related to subrecipient audits does not include the following:

- Documentation of policies, procedures, and sanctions related to subrecipients who do not submit their reports.
- Documentation of monitoring of audit findings to ensure a management decision is issued within six months and the subrecipient takes timely and appropriate corrective action.
- Documentation of single audit reviews is not available for all reports received.

Questioned Costs: None.

Context: The Agency has developed centralized procedures related to obtaining single audit reports from subrecipients; however, due to the timing of when certain subrecipient reports were due, some of the subrecipients tested were not yet covered by the new procedures in place.

Cause: The Agency is still in the process of refining their centralized monitoring procedures.

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

Recommendation: We recommend the Agency continue to refine its centralized monitoring procedures and develop a monitoring tool, as well as written policies and procedures, to ensure that all required single audit reports are received and reviewed and appropriate action is taken on any findings noted.

Finding #03-26-05

Program: CFDA #'s 93.575 and 93.596—Child Care Cluster—Allowable Costs/Cost Principles

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

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

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

Questioned Costs: None.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

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

Recommendation: We are aware that the Agency is working on implementing a quality control program and encourage the Agency to continue to develop procedures to identify or prevent potential fraud at daycare centers.

Finding #03-26-06

Program: CFDA #'s 93.775, 93.777, and 93.778—Medicaid Cluster—Special Tests and Provisions

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

Criteria: State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS onsite reviews (45 CFR section 95.621).

Condition: Although a review was performed in May 2003, no formal documentation of the review was maintained by the Agency.

Questioned Costs: None.

Context: No formal documentation was maintained indicating an evaluation of physical and data security operating procedures and personnel practices.

Cause: The Agency does not have procedures in place to ensure proper documentation of the evaluation.

Effect: Inability to test compliance with the requirement.

Recommendation: We recommend the Agency formally document the outcomes of the evaluations of physical and data security operating procedures and personnel practices.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Finding #03-26-07

Program: CFDA#'s 93.775, 93.777, and 93.778—Medicaid Cluster—Cash Management

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

Criteria: Treasury regulations at 31 CFR 205, which implement the Cash Management Improvement Act of 1990, require recipients to enter into agreements that prescribe specific methods of drawing down federal funds for selected large programs. Cash Management Improvement Act (CMIA) Policy Statement Number 19 states “the drawdown of federal cash for any period should not exceed the federally funded portion of the combination of the Mandatory and Matching Funds, taking into account the State maintenance of effort and State matching requirements.”

Condition: The Agency utilizes a Cost Allocation Plan to allocate administrative costs to some of the larger federal programs administered by the Agency. Because the allocation is completed on a quarterly basis, actual costs can only be estimated until final results of the Cost Allocation Plan are available. The Agency has established procedures to monitor the variance between the drawdown of funds based on estimates for programs falling under the Cost Allocation Plan and the actual amounts incurred by each program according to the allocation. Subsequent draws through the coding of expenditures are adjusted as needed to help ensure the estimated costs are reasonably consistent with actual costs incurred. The federal fiscal year 2003 grant was significantly overdrawn and not subsequently adjusted in a timely manner.

Questioned Costs: None.

Context: All grants will ultimately be adjusted and settled with the federal agency prior to closing the grant award. However, throughout the grant period, significant variances did occur between amounts drawn and costs incurred for the above program.

Cause: The Agency has developed a procedure for monitoring; however, subsequent adjustments related to overdrawn amounts were not made in a timely manner.

Effect: The Agency may not be in compliance with the cash management requirements.

Recommendation: We recommend the Agency perform timely corrective action to ensure significant variances between drawdowns based on estimated costs and actual costs incurred do not become significant.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Finding #03-26-08

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

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

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

Condition: For the determination of eligibility and authorization of payment, the Agency relies on caseworkers. A supervisory review of the caseworkers' determinations and calculations has been implemented; however, the results of the reviews are not required to be documented and the reviews include most, but not the review of all, eligibility requirements.

Questioned Costs: None.

Context: Inability to test a control in place because there is no audit trail.

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

Effect: The Agency does not have a complete, documented supervisory review in place, which increases both the risk of disbursing federal funds for unallowable activities to noneligible participants and the risk of disbursing federal funds for the incorrect amount for allowable activities to eligible participants either mistakenly or fraudulently.

Recommendations: We recommend the Agency establish supervisory review policies and procedures for all local offices to follow to assist in detecting errors or instances of fraud and we suggest the Agency expand the reviews performed to include all eligibility requirements of this program.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

DEPARTMENT OF MILITARY

Finding #03-31-01

Program: CFDA #83.552—Emergency Management Performance Grant—Allowable Costs/Cost Principles

Federal Grantor Agency: Federal Emergency Management Agency (FEMA)

Criteria: OMB Circular A-87 indicates that costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, such as more than one federal award, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between the budgeted and actual costs are less than 10 percent.

Condition: Employees who worked only on one federal program were not required to complete semiannual certifications that the employees worked solely on that program for the period covered by the certification. Time worked by employees on multiple federal programs was not based on an after-the-fact distribution of actual activity of each employee. Each employees' time was budgeted for each federal program and charged to the federal programs according to the budget. One of six employees tested worked 37 hours on another federal grant and 100 percent of his salary was charged to the EMP grant.

Questioned Costs: \$514,676—Total payroll expense charged to the federal program.

Context: There are 28 employees of the Nebraska Emergency Management Agency (NEMA). This is the State program that administers the federal program. Approximately 21 of the employees were paid partially or fully from the federal program. The total payoff charged to the federal fund was \$514,676.

Cause: The Agency was unaware of this requirement.

Effect: Non-compliance with the allowable costs compliance requirements.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Employees who work on only one federal program should complete a semiannual certification stating such. Employees who work on more than one federal program should document their total activities using after-the-fact personnel activity reports.

Finding #03-31-02

Program: CFDA #83.552—Emergency Management Performance Grants—Subrecipient Monitoring

Federal Grantor Agency: Federal Emergency Management Agency

Criteria: According to OMB Circular A-133, *Compliance Supplement (M) Subrecipient Monitoring*, a pass-through entity is responsible for monitoring the subrecipient's use of federal awards to provide reasonable assurance that the subrecipient administers the federal award in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: The Agency allows subrecipients to submit a certification of expenses paid signed by County Clerks in lieu of submitting receipts and other supporting documentation and no on-site visits are performed.

Questioned Costs: None.

Context: There were 37 Local Agencies that received a total of \$784,755 in federal funds in fiscal year 2003. Six of these agencies submitted adequate support for all of their costs totaling \$204,957. The remaining 31 agencies submitted a certification of expenditures signed by the County Clerk. The total expenditures for those agencies were \$579,798.

Cause: The Agency believes that the certifications are adequate supporting documentation and that they do not have the resources to perform on-site visits.

Effect: Increased risk of possible loss or misuse of federal funds.

Recommendation: We recommend the Agency develop additional monitoring procedures to verify local agencies are in compliance with program requirements, for example, by requiring the submission of supporting documentation or performing on-site reviews.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

HISTORICAL SOCIETY

Finding #03-54-01

Program: CFDA #15.904—Historic Preservation Fund Grants-In-Aid—Allowable Costs/Costs Principles

Federal Grantor Agency: U.S. Department of Interior

Criteria: The Office of Management and Budget Circular A-87 requires employees working on federal grants to maintain certain documentation. For employees that worked solely on a federal award, a semiannual certification must be prepared documenting the employee's work for the period and must be signed by the employee or supervisory official. Employees working on a federal award and other nonfederal activities must sign and document actual hours worked on the federal award at least monthly.

Condition: The following conditions were noted:

- Three employees who worked solely on a federal award did not have semiannual certifications on file. Instead, an annual certification dated February 25, 2002 was prepared noting that these employees worked solely on historic preservation activities.
- Two employees who worked part time on a federal award were selected and tested for compliance with OMB Circular A-87. Time sheets were kept for the two employees during the period tested, but there was no documentation stating that the number of hours the employees worked on the American Bounty grant. After our request, a memo stating the number of hours spent per pay period (biweekly) on the federal award was received from the two employees, which was signed by the employee and the supervisor.

Questioned Costs: \$76,421

Context: Five of ten employees tested were paid from federal funds. Sixteen employees worked on the American Bounty grant during the fiscal year for a total of \$76,421 in personal services.

Cause: The Society did not have procedures in place for employees to document time spent on more than one program.

Effect: The Society did not comply with federal requirements.

Recommendation: We recommend the Society implement procedures to ensure compliance with OMB Circular A-87, including documentation of actual hours worked on a federal award for employees working part time on a federal award and semiannual certifications for employees working solely on a federal award.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #03-84-01

Program: CFDA #66.458—Capitalization Grants for Clean Water State Revolving Fund—Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Federal Grantor Agency: U.S. Environmental Protection Agency

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

Condition: The Agency requires management review and approval of loan disbursements before disbursed to recipients. One out of ten loan disbursements tested was not approved or reviewed by management.

Questioned Costs: None.

Context: The control procedure was not performed on 1 out of 10 loan disbursements.

Cause: Due to lack of resources and employee turnover, the review process in place did not operate effectively to ensure all loan disbursements were reviewed.

Effect: Due to inadequate controls over disbursements, the Agency is at risk of disbursing federal funds for unallowable costs.

Recommendation: We recommend the Agency continue to implement and follow adequate control procedures to ensure federal monies are properly spent on allowable costs.

Finding #03-84-02

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

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The Code of Federal Regulations (40 CFR 30.52) requires submission of the following reports:

- SF-269 Financial Status Report.
- Clean Water State Revolving Fund Annual Report.

Condition: Amounts from each of the reports tested could not be reconciled to the accounting system.

Questioned Costs: None.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Context: For each report, certain amounts tested could not be reconciled to the accounting system.

Cause: Employee turnover and inadequate review procedures.

Effect: Submission of inaccurate reports.

Recommendation: We recommend the Agency develop and implement controls to ensure reports are completed and filed with the federal agency in accordance with federal requirements and reconciled to the accounting system. In addition, we recommend the Agency implement adequate review procedures to ensure accurate reports are submitted.

Finding #03-84-03

Program: CFDA #66.458—Capitalization Grants for Clean Water State Revolving Fund—Subrecipient Monitoring

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: A pass-through entity is responsible for:

- *Award Identification*—At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring*—Monitoring the subrecipient’s use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits*—Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact*—Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition: The Agency’s monitoring procedures related to subrecipient audits does not include the following:

- Documentation of policies, procedures, and sanctions related to subrecipients who do not submit their reports.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- Documentation of single audit reviews is not available for all reports received.

In addition, no on-site monitoring was performed during the year.

Questioned Costs: None.

Context: The Agency did not have adequate documentation available to determine that it had obtained and reviewed the single audit reports for the four subrecipients tested. In addition, there were four subrecipients identified for on-site reviews in the Agency's subrecipient monitoring plan, however; due to resource constraints none of the reviews were conducted during the year.

Cause: As a result of a shift in monitoring emphasis to the Litter Program, due to subrecipient findings being enforced through pending litigation, resources available for other program monitoring functions were limited.

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

Recommendation: We recommend the Agency continue to refine its monitoring procedures and develop a monitoring tool, as well as written policies and procedures, to ensure that scheduled on-site reviews are completed and that all required Single Audit reports are received and reviewed and appropriate action is taken on any findings noted.