

STATE OF NEBRASKA
STATEWIDE SINGLE AUDIT

Year Ended June 30, 2005

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

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

Issued on March 8, 2006

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2005

TABLE OF CONTENTS

| | Page |
|--|-------------|
| Financial Section: | |
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Statement of Net Assets | 19 |
| Statement of Activities..... | 20 |
| Balance Sheet - Governmental Funds..... | 22 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | 23 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 24 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities..... | 25 |
| Statement of Net Assets - Proprietary Funds..... | 26 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds | 27 |
| Statement of Cash Flows - Proprietary Funds | 28 |
| Statement of Fiduciary Net Assets - Fiduciary Funds | 30 |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Funds | 31 |
| Statement of Net Assets - Component Units | 32 |
| Statement of Activities - Component Units | 33 |
| Notes to the Financial Statements..... | 34 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule - General Fund | 51 |
| Budgetary Comparison Schedule - Cash Funds..... | 52 |
| Budgetary Comparison Schedule - Construction Funds..... | 53 |
| Budgetary Comparison Schedule - Federal Funds..... | 54 |
| Budgetary Comparison Schedule - Revolving Funds..... | 55 |
| Notes to Required Supplementary Information | 56 |
| Information About Infrastructure Assets Reported Using the Modified Approach..... | 57 |

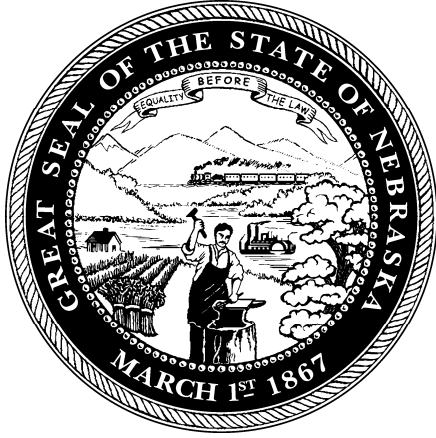
STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2005

TABLE OF CONTENTS
(Continued)

| | Page |
|--|-------------|
| Single Audit Section: | |
| Schedule of Expenditures of Federal Awards - By Federal Agency | 58 |
| Schedule of Expenditures of Federal Awards - By State Agency | 67 |
| Notes to the Schedule of Expenditures of Federal Awards | 77 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 81 |
| 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 | 83 |
| Schedule of Findings and Questioned Costs | 87 |
| Summary Schedule of Prior Audit Findings | 152 |



FINANCIAL SECTION

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

Independent Auditors' Report

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

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

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

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, 2005, 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 Nebraska State College System's foundations; the University of Nebraska; the College Savings Plan, a private purpose trust fund; and the NETC Leasing Corporation, a nonmajor special revenue fund. The State College System's foundations and the University of Nebraska represent 96% and 95% of the assets and revenues, respectively, of the aggregate discretely presented component units' information. The College Savings Plan private purpose trust fund and the NETC Leasing Corporation nonmajor special revenue fund represent 10% and 21% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 15 to the financial statements, the State of Nebraska adopted in 2005 the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB Statement No. 3*. As also described in note 15 the State of Nebraska decreased Beginning Net Assets of the Private Purpose Trust, Fiduciary Funds by \$172,460 to reflect the audited financial statements of the College Savings Plan as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 18, the Budgetary Comparison Schedules-General Fund, Cash, Construction, Federal and Revolving Fund Types on pages 51 through 56; the Information About Infrastructure Assets Reported Using the Modified Approach on page 57; and the Schedules of Funding Progress and Three-Year Trend Information on page 48 and 49, respectively, 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The 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 respect, in relation to the basic financial statements.

Lincoln, Nebraska
December 19, 2005


Assistant Deputy Auditor

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. 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 one new standard in 2005 required by Governmental Accounting Standards Board (GASB), Statement No. 40, *Deposit and Investment Risk Disclosures*. This resulted in significant changes to the investment disclosures presented in Note 2 to the financial statements.

A comparative analysis of government-wide data for the last two years is presented in this analysis.

FINANCIAL HIGHLIGHTS

Government-Wide:

The assets of the State exceeded its liabilities at June 30, 2005 by \$9.3 billion (presented as "net assets" in the CAFR). The majority of the net assets are 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 \$830 million, much of which is, by statute, to be spent on nursing facilities, medical assistance programs and tobacco prevention and control. The primary government's net revenues exceeded net expenses for 2005 by \$615 million (thus, an increase in net assets). The increase in net assets was primarily a result of a continually improving economy causing an increase in taxes collected coupled with a less than budgeted increase of expenditures from 2004.

Fund Level:

General Fund receipts for 2005 were \$262 million above the original budgeted amount and above the final budget by \$48 million. Expenditures were \$132 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$173 million in excess revenues prior to \$28 million in other financing sources (uses) resulting in an ending fund balance on June 30, 2005 of \$409 million. Other governmental funds had \$113 million in excess revenues prior to other financing sources (uses) increasing such fund balances at June 30, 2005 to \$1,599 million.

The \$211 million of net assets of the Unemployment Compensation Fund represents eighty-six percent of the proprietary funds. Such fund only had a \$28 million increase in net assets for 2005 (compared to a \$10 million decrease in 2004) due to a \$42 million decrease in unemployment claims.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Long-term Liabilities:

Long-term liabilities totaled \$658 million at June 30, 2005, which is a small change from the prior year. Most of these liabilities consist of (1) \$290 million of claims payable for workers' compensation claims, medical excess liability, unemployment compensation claims, employee health insurance claims, among other claims, (2) \$181 million of Medicaid claims, and (3) the calculated amount for vested sick leave due employees when they retire and accrued vacation, totaling \$111 million. Debt related to capital assets totaled \$48 million at June 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's 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 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 19) 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 20 and 21) 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.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 96% 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 22) provide detailed information about the State's major funds. A fund is a method of accounting that uses a set of accounts to maintain

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 23 and 25).

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

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 34.

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 presented in the CAFR 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 in the CAFR is a statistical section providing a variety of data about the State.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$11,026 million at June 30, 2005 as compared to \$10,236 at June 30, 2004. As total liabilities only totaled \$1,767 million, net assets amounted to \$9,259 million as of June 30, 2005. As of June 30, 2004, these amounts were \$1,575 million and \$8,661 million, respectively. By far the largest portion of the State of Nebraska's net assets (77 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 | |
|--|----------------------------|-----------------|-----------------------------|---------------|-----------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and Other | | | | | | |
| Non-current Assets | \$ 3,539 | \$ 2,905 | \$ 324 | \$ 297 | \$ 3,863 | \$ 3,202 |
| Capital Assets | 7,156 | 7,028 | 7 | 6 | 7,163 | 7,034 |
| Total Assets | 10,695 | 9,933 | 331 | 303 | 11,026 | 10,236 |
| Non-current Liabilities | 604 | 568 | 54 | 68 | 658 | 636 |
| Other Liabilities | 1,077 | 908 | 32 | 31 | 1,109 | 939 |
| Total Liabilities | 1,681 | 1,476 | 86 | 99 | 1,767 | 1,575 |
| Net assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 7,110 | 6,980 | 6 | 6 | 7,116 | 6,986 |
| Restricted | 1,100 | 1,051 | 213 | 185 | 1,313 | 1,236 |
| Unrestricted | 804 | 426 | 26 | 13 | 830 | 439 |
| Total Net Assets | \$ 9,014 | \$ 8,457 | \$ 245 | \$ 204 | \$ 9,259 | \$ 8,661 |

The State's non-capital assets chiefly consist of cash, investments and receivables. It should be noted that \$489 million in 2005 and \$374 million in 2004 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.)

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 (\$290 million for 2005 and \$284 million for 2004), Medicaid claims for \$181 million (\$177 million in 2004) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$111 million of 2005 (\$109 million for 2004). 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, 2005, 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 2005, analyzing both the governmental activities and the business-type activities.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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

| | <u>Governmental</u> <u>Activities</u> | | <u>Business-type</u> <u>Activities</u> | | <u>Total Primary</u> <u>Government</u> | |
|--|--|-----------------|---|---------------|---|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| REVENUES | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 528 | \$ 523 | \$ 258 | \$ 245 | \$ 786 | \$ 768 |
| Operating Grants and Contributions | 2,121 | 2,147 | - | - | 2,121 | 2,147 |
| Capital Grants and Contributions | 12 | 6 | - | - | 12 | 6 |
| General Revenues | | | | | - | |
| Taxes | 3,566 | 3,220 | - | - | 3,566 | 3,220 |
| Unrestricted Investment Earnings | 118 | 86 | 13 | 15 | 131 | 101 |
| Miscellaneous | 22 | 13 | - | - | 22 | 13 |
| Total Revenues | <u>6,367</u> | <u>5,995</u> | <u>271</u> | <u>260</u> | <u>6,638</u> | <u>6,255</u> |
| EXPENSES | | | | | | |
| General Government | 228 | 178 | - | - | 228 | 178 |
| Conservation of Natural Resources | 95 | 92 | - | - | 95 | 92 |
| Culture - Recreation | 29 | 20 | - | - | 29 | 20 |
| Economic Development and Assistance | 80 | 80 | - | - | 80 | 80 |
| Education | 1,225 | 1,201 | - | - | 1,225 | 1,201 |
| Higher Education - Colleges and Universities | 451 | 438 | - | - | 451 | 438 |
| Health and Social Services | 2,495 | 2,330 | - | - | 2,495 | 2,330 |
| Public Safety | 282 | 254 | - | - | 282 | 254 |
| Regulation of Business and Professions | 139 | 127 | - | - | 139 | 127 |
| Transportation | 716 | 716 | - | - | 716 | 716 |
| Intergovernmental | 93 | 116 | - | - | 93 | 116 |
| Interest on Long-term Debt | 3 | 3 | - | - | 3 | 3 |
| Unemployment Compensation | - | - | 114 | 156 | 114 | 156 |
| Lottery | - | - | 77 | 73 | 77 | 73 |
| Excess Liability | - | - | 2 | 15 | 2 | 15 |
| Cornhusker State Industries | - | - | 11 | 8 | 11 | 8 |
| Total Expenses | <u>5,836</u> | <u>5,555</u> | <u>204</u> | <u>252</u> | <u>6,040</u> | <u>5,807</u> |
| Excess (deficiency) Before Transfers | 531 | 440 | 67 | 8 | 598 | 448 |
| Transfers | 26 | 21 | (26) | (21) | - | - |
| Increase (Decrease) in Net Assets | 557 | 461 | 41 | (13) | 598 | 448 |
| Net Assets - Beginning | 8,457 | 7,996 | 204 | 217 | 8,661 | 8,213 |
| Net Assets - Ending | <u>\$ 9,014</u> | <u>\$ 8,457</u> | <u>\$ 245</u> | <u>\$ 204</u> | <u>\$ 9,259</u> | <u>\$ 8,661</u> |

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Governmental Activities

Governmental activities increased the State's net assets by \$557 million in 2005 (\$461 million in 2004). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,661 million and were used to partially offset program expenses of \$5,836 million, leaving net expenses of \$3,175 million. Only 4% of total expenses were spent on general government expenses. General taxes, earnings and transfers of \$3,732 million were used to more than cover the remaining costs of the programs as shown below.

Program revenues basically remained unchanged from 2004. However, tax revenues were up \$346 million, which more than offset the \$296 million increase in program expenditures, net of revenues, by \$50 million. Investment earnings increased \$32 million due to more cash available for investment in 2005. These were the chief reasons for increase in net assets of \$96 million.

Program expenditures, net of revenue, increased chiefly due to three areas: General Government was up \$79 million; Health and Social Services was up \$235 million; and Transportation net expenditures were down \$59 million. General Government did not receive another federal grant of \$29 million as they had the past two years and there was a shift of \$30 million in expenses from other areas. Medicaid grants received in Health and Social Services were down \$67 million in 2005. In addition, Medicaid costs increased over 2004. Transportation received \$42 million more in grants in 2005 when compared to 2004.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENTAL ACTIVITIES
(in millions of dollars)

| Program Expenditures, Net of Revenue | 2005 | 2004 |
|--|----------|---------|
| General Government | \$ (162) | \$ (83) |
| Conservation of Natural Resources | (21) | (9) |
| Culture - Recreation | (9) | (3) |
| Economic Development and Assistance | (14) | (19) |
| Education | (927) | (922) |
| Higher Education - Colleges and University | (451) | (438) |
| Health and Social Services | (1,001) | (766) |
| Public Safety | (180) | (160) |
| Regulation of Business and Professions | (14) | (8) |
| Transportation | (308) | (367) |
| Intergovernmental | (85) | (101) |
| Interest on Long-Term Debt | (3) | (3) |
| Subtotal | (3,175) | (2,879) |
| General Revenues | | |
| Taxes | 3,566 | 3,220 |
| Unrestricted Investment Earnings | 118 | 86 |
| Miscellaneous | 22 | 13 |
| | - | - |
| Transfers | 26 | 21 |
| Increase (Decrease) in Net Assets | \$ 557 | \$ 461 |

Business-type Activities

The business-type activities increased the State's net assets by \$42 million for 2005 after a \$26 million transfer to the governmental activities. Most of the \$258 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Compensation Fund and Lottery Fund revenues. The Unemployment Compensation Fund had operating income of \$19 million in 2005. This income, when combined with the operating income of \$9 million created in the Excess Liability Fund, \$14 million in investment income and \$2 million in net revenues from Cornhusker State Industries, produced \$44 million of revenue. Lottery revenues of \$101 million generated net revenue of \$24 million, which was offset by the \$26 million transfer to the Governmental Activities. The lottery transfer was used primarily for education and environmental studies.

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.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 designated or undesignated. If they are designated, 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 designated funds.) At the end of 2005, the State's Governmental Funds reported combined ending fund balances of \$2,008 million. The total unreserved balances amounted to \$1,630 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 of \$244 million. Such refunds payable were \$64 million less than the expected taxes owed the State. Other assets of the General Fund available to pay near-term liabilities exceeded such liabilities by \$345 million.

On June 30, 2004, the General Fund had a positive fund balance of \$208 million. While both revenues and expenditures increased in 2005, revenues were greater than expenditures which resulted in an increase in fund balance of \$173 million in 2005, which was slightly less than the \$208 million increase that occurred in 2004. This \$173 million increase in 2005, when coupled with \$28 million of other financing sources, caused the General Fund balance to increase by \$201 million, ending with a fund balance of \$409 million.

Revenues in 2005 were more than anticipated and were up \$337 million over 2004 chiefly due to (1) continued increase in corporate income taxes because of increased revenues and companies had less losses to write off, (2) increased individual income tax revenue resulting from the effect of less capital losses being reported and increased revenues by farmers and small business owners, and (3) increased sales taxes collected because of increased retail sales and the continuing effect of the increased sales tax base. Expenditures were less than budgeted due to a concerted effort by agency heads to be conservative in spending.

To compensate for any downturns in revenues, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in the General Fund cash account to do so. Such reserve was at \$59 million at the beginning of 2004. In 2004, because of the increased revenues, the General Fund was able to repay the \$30 million that was borrowed from the Cash Reserve in 2003. Cigarette tax revenues of \$27 million were placed into the Cash Reserve in 2004 and the \$29 million of federal funds was transferred

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

to the General Fund cash account, leaving a Cash Reserve Fund balance at the end of 2004 of \$87 million. Due to the fact that 2004 revenues exceeded the forecast, a statutory requirement caused a \$109 million transfer from the General Fund cash account to the Cash Reserve Fund in July 2004. Cigarette tax revenues of \$8 million was added to the Cash Reserve Fund during 2005 (this revenue stream ended October 1, 2004). These two items, when combined with \$27 million of transfers out, left a balance of \$177 million at the end of 2005. Again, because 2005 revenues exceeded the forecast, a \$262 million transfer was made from the General Fund into the Cash Reserve Fund in July, 2005. Offsetting this large transfer was a \$146 million payment made on August 1, 2005 from the Cash Reserve to settle a lawsuit against the state related to a low-level waste site.

Other Governmental Funds

Other governmental fund balances totaled \$1,599 million at June 30, 2005; \$378 million of such fund balances is reserved to indicate that they are not available for new spending because such funds (1) are represented by endowment principal (\$184 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$180 million), (3) have been expended for other assets, chiefly inventories (\$8 million) and thus the funds are not available, or (4) have been committed for debt service (\$6 million).

Of the non-General Fund unreserved fund balances of \$1,221 million, \$227 million represents permanent school funds which can be used only for support of public schools. \$936 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). Twenty-three million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Thirty-four million dollars is 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 \$555 million. Of this balance, \$543 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 an increase in fund balances of \$115 million. The fund balances of all such funds increased: the Highway Fund (\$12 million), the Federal Fund (\$1 million), the Health and Social Service Fund (\$38 million), the Permanent School Fund (\$40 million) and other Nonmajor Funds (\$24 million).

The Highway Fund had a \$41 million increase in federal funds. This, along with \$24 million more in fees, investment income, and other income more than offset the \$50 million increase in operating expenses (a 6% increase) and \$10 million less in sales tax revenue. These were the major reasons the Highway Fund had a \$12 million increase in fund balance from the prior year.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Federal Fund received \$35 million less in federal grants and contracts, a 2% decrease from 2004. Because of such decreased revenues, there were reduced expenditures spent in accordance with the terms of the grants and contracts of \$30 million. As there was also less grant activity, at the end of 2005 there was still a small net increase in the fund of \$1 million, a \$6 million swing from the \$7 million increase in the fund in 2004.

The Health and Social Services Fund had a decrease in investment income in 2005 of \$9 million (mostly due to market fluctuations), a \$27 million increase in expenditures chiefly due to an increase in the State portion of Medicaid, which, when added to a decrease in other revenue of \$6 million, resulted in a \$42 million smaller increase in net revenues when compared to 2004. In the year 2004 the fund balance was increased \$80 million, whereas in 2005 the fund balance was increased by only \$38 million.

The Permanent School Funds had a \$4 million improvement of revenue, which offset a slight increase in expenditures, causing the fund balance to increase \$40 million in 2005 in comparison with a \$37 million increase in 2004.

The Nonmajor Funds were mostly stable from 2004 to 2005, with slight increases in both revenues and expenditures and \$4 million less in net transfers in during 2005. In 2004 the Fund balance increased \$31 million; in 2005 it increased only \$24 million. The \$7 million smaller increase was chiefly due to the effect of the transfers.

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 \$211 million at the end of 2005. This fund's net assets increased \$28 million in 2005, due to charges to customers which exceeded the unemployment claims paid out by \$19 million. 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 \$39 million prior to a \$26 million transfer from the Lottery to governmental funds. Such transfer was used primarily for education and environmental studies.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets increased \$644 million to \$7,063 million in 2005 due primarily to a strong market in 2005, which provided \$505 million in appreciation of investments. Investment income in 2005 was \$117 million versus \$106 million in 2004. Contributions to the plans exceeded benefits, refunds and related administrative expenses by \$31 million. In another trust fund, \$376 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in the College Savings Plan now total \$950 million.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2005, the State continued to reap the benefits of the improving national economy. Forecasted revenues, upon which the State's budgeted expenses were based, had anticipated a slow growth coming out of the recession. However, the State exceeded the revised projected tax revenues of \$2,899 million by \$48 million, realizing actual tax revenues, net of refunds, of \$2,947 million. Because the revenues continued to exceed expectations, the State's Forecasting Board made two new forecasts throughout the year, each time increasing the expected revenues. As the year unfolded, revenues continued to pick up and the end result was that actual revenues again exceeded the annual forecast. Additionally, throughout the year, agencies were encouraged to watch their spending and General Fund spending ended up \$110 million less than the appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2005 with \$318 million of revenues in excess of expenditures on a budgetary basis.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the State had invested \$7.2 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation expense for 2005 totaled \$58 million, compared to \$52 million for 2004.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------|----------------------------|-----------------|-----------------------------|-------------|-----------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 494 | \$ 473 | \$ - | \$ - | \$ 494 | \$ 473 |
| Buildings and Equipment | 334 | 344 | 7 | 6 | 341 | 350 |
| Infrastructure | 6,262 | 6,156 | - | - | 6,262 | 6,156 |
| Subtotal | 7,090 | 6,973 | 7 | 6 | 7,097 | 6,979 |
| Construction in Progress | 66 | 55 | - | - | 66 | 55 |
| Total | \$ 7,156 | \$ 7,028 | \$ 7 | \$ 6 | \$ 7,163 | \$ 7,034 |

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.

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 2004, indicated an overall system rating of 83%, the same rating from the prior year.

For 2005, it was estimated that the State needed to spend \$123 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$221 million on roads in 2005, compared to \$200 million in 2004. For 2006, it is estimated that the State needs to spend \$125 million, a considerable reduction from the past three years.

During 2005, the State added \$45 million of new depreciable capital assets. The State spent \$128 million on infrastructure and land purchases in 2005, most notably reconstructing (a) Highway 275 in Stanton County, (b) Interstate 80 around Grand Island and also southwest of Omaha, (c) Interstate 680 in west Omaha, (d) Highway 77 in Saunders County, and (e) Highway 26 from Scottsbluff to Minatare. This compares to \$88 million spent in 2004. Twenty-two million of governmental funds were spent on capital projects in 2005 compared to nineteen million in 2004. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project.

At June 30, 2005, the State had contractual commitments of \$599 million 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 financial statements.)

The State's General Fund capital outlay budget authorized spending \$24 million on capital projects in 2006, in addition to \$1 million of unspent capital outlay authorizations that existed on June 30, 2005.

Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated. For further detail and analysis of long-term debt, see Notes 8 and 9 to the financial statements.

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

| | GOVERNMENTAL ACTIVITIES | |
|---------------------------------------|--------------------------------|--------------|
| | 2005 | 2004 |
| <u>Bonds Payable:</u> | | |
| Nebraska State Building Corporation | \$ 2 | \$ 3 |
| NETC Leasing Corp | 21 | 24 |
| | <u>23</u> | <u>27</u> |
| <u>Capitalized Leases:</u> | | |
| | <u>\$ 25</u> | <u>\$ 27</u> |

STATE OF NEBRASKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

There were no new bonds issued in 2005 or 2004. There were only three small capitalized leases added in 2005 (only two leases were added in 2004), and such additional debt was more than offset by debt 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

Nebraska farm income has greatly improved and the economy has continued a measured 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.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2005, this Fund had a \$177 million balance. Factors affecting the June 30, 2006 Cash Reserve Fund include (1) \$262 million transferred from the General Fund in July 2005 to the Cash Reserve Fund as statutorily required, due to the 2005 revenues exceeding the original 2005 forecasted revenues, (2) a cash payment of \$146 million made on August 1, 2005 to settle the low-level radioactive lawsuit, and (3) legislative mandated net transfers made to the General Fund of \$15 million.

Because of the recent surge in tax revenues, the Governor recently proposed broad tax reductions over the next three years, including \$148 million in income tax reductions, \$99 million reduction in sales tax on certain services, and providing an additional \$174 million in state aid to schools, so the schools could lower property taxes. These tax reductions of \$421 million are predicated upon revenues continuing to exceed spending needs over the next three years. Whether these tax cuts or other legislative tax cuts are enacted, the State is well positioned to provide a certain amount of tax reductions with the General Fund balance at \$409 million at June 30, 2005 and the fact that this fund has been growing for the past two 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.

State of Nebraska

STATEMENT OF NET ASSETS

June 30, 2005

(Dollars in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|----------------------|---------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTALS | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 222,038 | \$ 189,076 | \$ 411,114 | \$ 232,314 |
| Receivables, net of allowance | | | | |
| Taxes | 350,084 | - | 350,084 | - |
| Due from Federal Government | 210,182 | - | 210,182 | - |
| Other | 136,236 | 38,894 | 175,130 | 174,228 |
| Internal Balances | 23 | (23) | - | - |
| Due from Primary Government | - | - | - | 363 |
| Investments | 1,930,752 | 79,843 | 2,010,595 | 1,309,247 |
| Loans Receivable | 180,332 | - | 180,332 | 39,536 |
| Investment in Joint Venture | - | - | - | 163,084 |
| Other Assets | 16,199 | 2,601 | 18,800 | 31,618 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 17,592 | - | 17,592 | 240,744 |
| Other | - | 1,744 | 1,744 | 2,842 |
| Securities Lending Collateral | 475,955 | 12,586 | 488,541 | - |
| Capital assets: | | | | |
| Land | 494,067 | 315 | 494,382 | 53,958 |
| Infrastructure | 6,261,582 | - | 6,261,582 | - |
| Construction in Progress | 65,884 | - | 65,884 | 136,459 |
| Land Improvements | - | - | - | 108,248 |
| Buildings and Equipment | 764,993 | 10,990 | 775,983 | 1,432,614 |
| Less Accumulated Depreciation | (430,811) | (4,755) | (435,566) | (544,172) |
| Total Capital Assets, net of depreciation | <u>7,155,715</u> | <u>6,550</u> | <u>7,162,265</u> | <u>1,187,107</u> |
| Total Assets | <u>\$ 10,695,108</u> | <u>\$ 331,271</u> | <u>\$ 11,026,379</u> | <u>\$ 3,381,083</u> |
| LIABILITIES | | | | |
| Accounts Payable and Accrued Liabilities | \$ 316,352 | \$ 13,550 | \$ 329,902 | \$ 119,473 |
| Tax Refunds Payable | 249,899 | - | 249,899 | - |
| Due to Other Governments | 11,707 | - | 11,707 | - |
| Deposits | 4,934 | - | 4,934 | 8,287 |
| Due to Component Units | 363 | - | 363 | - |
| Unearned Revenue | 18,120 | 6,172 | 24,292 | 70,284 |
| Obligations under Securities Lending | 475,955 | 12,586 | 488,541 | - |
| Noncurrent Liabilities: | | | | |
| Due within one year | 374,535 | 27,534 | 402,069 | 57,123 |
| Due in more than one year | 229,241 | 26,066 | 255,307 | 418,651 |
| Total Liabilities | <u>\$ 1,681,106</u> | <u>\$ 85,908</u> | <u>\$ 1,767,014</u> | <u>\$ 673,818</u> |
| NET ASSETS | | | | |
| Invested in Capital Assets, net of related debt | \$ 7,110,299 | \$ 6,235 | \$ 7,116,534 | \$ 795,306 |
| Restricted for: | | | | |
| Education | 10,528 | - | 10,528 | 111,000 |
| Health and Social Services | 42,403 | - | 42,403 | - |
| Transportation | 73,805 | - | 73,805 | - |
| Licensing and Regulation | 116,108 | - | 116,108 | - |
| Other Purposes | 416,684 | 1,744 | 418,428 | 1,264,637 |
| Unemployment Compensation Benefits | - | 211,314 | 211,314 | - |
| Debt Service and Construction | 5,810 | - | 5,810 | 118,568 |
| Permanent Trusts: | | | | |
| Nonexpendable | 183,972 | - | 183,972 | - |
| Expendable | 250,127 | - | 250,127 | - |
| Unrestricted | 804,266 | 26,070 | 830,336 | 417,754 |
| Total Net Assets | <u>\$ 9,014,002</u> | <u>\$ 245,363</u> | <u>\$ 9,259,365</u> | <u>\$ 2,707,265</u> |

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

(Dollars in Thousands)

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS |
| PRIMARY GOVERNMENT: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 227,729 | \$ 56,666 | \$ 8,644 | \$ 297 |
| Conservation of Natural Resources | 95,589 | 22,049 | 51,072 | 1,036 |
| Culture – Recreation | 28,524 | 16,700 | 2,340 | 147 |
| Economic Development and Assistance | 79,618 | 3,600 | 62,135 | - |
| Education | 1,224,973 | 27,470 | 270,246 | 43 |
| Higher Education - Colleges and University | 451,404 | - | - | - |
| Health and Social Services | 2,494,782 | 147,720 | 1,346,524 | - |
| Public Safety | 282,474 | 27,614 | 64,384 | 10,722 |
| Regulation of Business and Professions | 139,248 | 122,536 | 3,134 | - |
| Transportation | 716,259 | 95,322 | 312,905 | - |
| Intergovernmental | 92,879 | 8,080 | - | - |
| Interest on Long-term Debt | 2,800 | - | - | - |
| Total governmental activities | <u>5,836,279</u> | <u>527,757</u> | <u>2,121,384</u> | <u>12,245</u> |
| Business-type activities: | | | | |
| Unemployment Compensation | 114,496 | 133,840 | - | - |
| Lottery | 77,128 | 100,658 | - | - |
| Excess Liability | 1,984 | 10,949 | - | - |
| Cornhusker State Industries | 10,509 | 13,022 | - | - |
| Total business-type activities | <u>204,117</u> | <u>258,469</u> | <u>-</u> | <u>-</u> |
| Total Primary Government | <u>\$ 6,040,396</u> | <u>\$ 786,226</u> | <u>\$ 2,121,384</u> | <u>\$ 12,245</u> |
| COMPONENT UNITS: | | | | |
| University of Nebraska | \$ 1,367,224 | \$ 522,338 | \$ 355,871 | \$ 5,350 |
| State Colleges | <u>72,745</u> | <u>24,121</u> | <u>11,295</u> | <u>816</u> |
| Total Component Units | <u>\$ 1,439,969</u> | <u>\$ 546,459</u> | <u>\$ 367,166</u> | <u>\$ 6,166</u> |

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
 Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
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 | |
| \$ (162,122) | \$ - | \$ (162,122) | \$ - |
| (21,432) | - | (21,432) | - |
| (9,337) | - | (9,337) | - |
| (13,883) | - | (13,883) | - |
| (927,214) | - | (927,214) | - |
| (451,404) | - | (451,404) | - |
| (1,000,538) | - | (1,000,538) | - |
| (179,754) | - | (179,754) | - |
| (13,578) | - | (13,578) | - |
| (308,032) | - | (308,032) | - |
| (84,799) | - | (84,799) | - |
| (2,800) | - | (2,800) | - |
| <u>(3,174,893)</u> | <u>-</u> | <u>(3,174,893)</u> | <u>-</u> |
| - | 19,344 | 19,344 | - |
| - | 23,530 | 23,530 | - |
| - | 8,965 | 8,965 | - |
| - | 2,513 | 2,513 | - |
| <u>-</u> | <u>54,352</u> | <u>54,352</u> | <u>-</u> |
| <u>-</u> | <u>54,352</u> | <u>(3,120,541)</u> | <u>-</u> |
| - | - | - | (483,665) |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(36,513)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(520,178)</u> |
| 1,612,683 | - | 1,612,683 | - |
| 1,376,100 | - | 1,376,100 | - |
| 311,231 | - | 311,231 | - |
| 126,593 | - | 126,593 | - |
| 70,344 | - | 70,344 | - |
| 68,885 | - | 68,885 | - |
| 117,977 | 13,705 | 131,682 | 63,916 |
| 5,106 | (3) | 5,103 | 164,781 |
| - | - | - | 451,404 |
| 16,581 | - | 16,581 | - |
| 26,372 | (26,372) | - | - |
| <u>3,731,872</u> | <u>(12,670)</u> | <u>3,719,202</u> | <u>680,101</u> |
| 556,979 | 41,682 | 598,661 | 159,923 |
| <u>8,457,023</u> | <u>203,681</u> | <u>8,660,704</u> | <u>2,547,342</u> |
| <u>\$ 9,014,002</u> | <u>\$ 245,363</u> | <u>\$ 9,259,365</u> | <u>\$ 2,707,265</u> |

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2005

(Dollars in Thousands)

| | GENERAL FUND | HIGHWAY FUND | FEDERAL FUND | HEALTH AND SOCIAL SERVICES | PERMANENT SCHOOL FUND | NONMAJOR FUNDS | TOTALS |
|--|---------------------|-------------------|-------------------|----------------------------------|-----------------------------|-------------------|---------------------|
| ASSETS: | | | | | | | |
| Cash and Cash Equivalents | \$ 48,959 | \$ 9,900 | \$ 37,771 | \$ 3,249 | \$ 7,130 | \$ 53,007 | \$ 160,016 |
| Cash on Deposit with Fiscal Agents | - | - | - | - | - | 17,592 | 17,592 |
| Investments | 568,077 | 115,869 | 2,770 | 419,222 | 399,705 | 425,109 | 1,930,752 |
| Securities Lending Collateral | 185,035 | 37,741 | 1,972 | 75,470 | 47,469 | 128,268 | 475,955 |
| Receivables, net of allowance | | | | | | | |
| Taxes | 308,186 | 41,709 | - | - | - | 189 | 350,084 |
| Due from Federal Government | - | 41,510 | 168,105 | - | - | 567 | 210,182 |
| Loans | 228 | - | 3,907 | 646 | - | 175,551 | 180,332 |
| Other | 28,369 | 7,588 | 35,733 | 34,849 | 9,635 | 13,052 | 129,226 |
| Due from Other Funds | 71,036 | 598 | 4,724 | 2,722 | 2,418 | 4,539 | 86,037 |
| Inventories | 247 | 6,953 | 5,807 | 409 | - | - | 13,416 |
| Prepaid Items | 57 | 14 | 3 | - | - | 101 | 175 |
| Other | 463 | - | - | - | - | 776 | 1,239 |
| TOTAL ASSETS | \$ 1,210,657 | \$ 261,882 | \$ 260,792 | \$ 536,567 | \$ 466,357 | \$ 818,751 | \$ 3,555,006 |
| LIABILITIES AND FUND BALANCE | | | | | | | |
| LIABILITIES: | | | | | | | |
| Accounts Payable and Accrued Liabilities | \$ 76,189 | \$ 61,951 | \$ 59,987 | \$ 33,014 | \$ 22,674 | \$ 27,641 | \$ 281,456 |
| Tax Refunds Payable | 243,589 | 6,310 | - | - | - | - | 249,899 |
| Due to Other Governments | 3,786 | 7,180 | - | - | - | 741 | 11,707 |
| Deposits | 487 | 933 | 2,118 | 240 | 100 | 1,056 | 4,934 |
| Due to Other Funds | 47,742 | 6,706 | 73,538 | 16,673 | 2 | 8,995 | 153,656 |
| Due to Component Units | 363 | - | - | - | - | - | 363 |
| Obligations under Securities Lending | 185,035 | 37,741 | 1,972 | 75,470 | 47,469 | 128,268 | 475,955 |
| Claims Payable | 230,332 | - | 93,049 | - | - | - | 323,381 |
| Deferred Revenue | 13,831 | - | 9,809 | 17,887 | 4,269 | - | 45,796 |
| TOTAL LIABILITIES | 801,354 | 120,821 | 240,473 | 143,284 | 74,514 | 166,701 | 1,547,147 |
| FUND BALANCES: | | | | | | | |
| Reserved for: | | | | | | | |
| Long-Term Receivables | 228 | - | 3,907 | 646 | - | 175,551 | 180,332 |
| Inventories and Prepaid Items | 304 | 6,967 | 3 | 409 | - | 101 | 7,784 |
| Debt Service | - | - | - | - | - | 6,262 | 6,262 |
| Endowment Principal | - | - | - | - | 164,407 | 19,565 | 183,972 |
| Unreserved, reported in: | | | | | | | |
| General Fund | 408,771 | - | - | - | - | - | 408,771 |
| Special Revenue Funds | - | 134,094 | 16,409 | 392,228 | - | 393,585 | 936,316 |
| Permanent Funds | - | - | - | - | 227,436 | 22,691 | 250,127 |
| Capital Projects Fund | - | - | - | - | - | 34,295 | 34,295 |
| TOTAL FUND BALANCES | 409,303 | 141,061 | 20,319 | 393,283 | 391,843 | 652,050 | 2,007,859 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,210,657 | \$ 261,882 | \$ 260,792 | \$ 536,567 | \$ 466,357 | \$ 818,751 | \$ 3,555,006 |

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

State of Nebraska

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

June 30, 2005

(Dollars in Thousands)

Total fund balances for governmental funds \$ 2,007,859

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 | 494,067 | |
| Infrastructure | 6,261,582 | |
| Construction in progress | 65,884 | |
| Other capital assets | 711,050 | |
| Accumulated depreciation | <u>(395,274)</u> | 7,137,309 |

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 28,396

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. 48,709

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 | (23,430) | |
| Accrued interest on bonds | (452) | |
| Capital leases | (20,481) | |
| Obligations under other financing arrangements | (11,430) | |
| Compensated absences | (106,327) | |
| Claims and judgments | (30,091) | |
| Pension benefit obligation | <u>(16,060)</u> | <u>(208,271)</u> |

Net assets of governmental activities \$ 9,014,002

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, 2005

(Dollars in Thousands)

| | GENERAL FUND | HIGHWAY FUND | FEDERAL FUND | HEALTH AND SOCIAL SERVICES | PERMANENT SCHOOL FUND | NONMAJOR FUNDS | TOTALS |
|---|------------------|-----------------|------------------|----------------------------------|-----------------------------|-------------------|------------------|
| REVENUES: | | | | | | | |
| Income Taxes | \$ 1,606,650 | \$ - | \$ - | \$ 3,358 | \$ - | \$ - | \$ 1,610,008 |
| Sales and Use Taxes | 1,232,294 | 141,548 | - | - | - | 2,833 | 1,376,675 |
| Petroleum Taxes | 6,177 | 290,453 | - | - | 2,186 | 12,415 | 311,231 |
| Excise Taxes | 74,782 | - | - | 5,436 | - | 44,307 | 124,525 |
| Business and Franchise Taxes | 56,777 | - | - | - | - | 13,567 | 70,344 |
| Other Taxes | 58,638 | 3,683 | - | - | - | 6,564 | 68,885 |
| Federal Grants and Contracts | 49 | 297,523 | 1,797,769 | 1,026 | - | 37,262 | 2,133,629 |
| Licenses, Fees and Permits | 18,941 | 72,315 | - | 4,680 | 2,039 | 100,995 | 198,970 |
| Charges for Services | 4,810 | 17,744 | 15,620 | 29,533 | - | 25,947 | 93,654 |
| Investment Income | 24,870 | 5,200 | 2,160 | 27,732 | 29,795 | 25,783 | 115,540 |
| Rents and Royalties | - | 325 | 103 | 483 | 21,871 | 18,655 | 41,437 |
| Surcharge | - | - | - | - | - | 61,205 | 61,205 |
| Other | 2,566 | 5,034 | 6,274 | 89,803 | 17,767 | 19,165 | 140,609 |
| TOTAL REVENUES | 3,086,554 | 833,825 | 1,821,926 | 162,051 | 73,658 | 368,698 | 6,346,712 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General Government | 280,703 | - | 3,060 | - | - | 29,268 | 313,031 |
| Conservation of Natural Resources | 28,609 | - | 25,982 | - | - | 43,476 | 98,067 |
| Culture - Recreation | 5,183 | - | 1,949 | - | - | 21,181 | 28,313 |
| Economic Development and Assistance | 4,976 | - | 62,457 | - | - | 13,739 | 81,172 |
| Education | 911,569 | - | 267,882 | - | 33,891 | 10,119 | 1,223,461 |
| Higher Education - Colleges and University | 434,073 | - | - | - | - | 17,331 | 451,404 |
| Health and Social Services | 989,968 | - | 1,361,679 | 122,397 | - | 1,908 | 2,475,952 |
| Public Safety | 182,626 | - | 75,795 | - | - | 27,311 | 285,732 |
| Regulation of Business and Professions | 5,094 | - | 2,190 | - | - | 131,802 | 139,086 |
| Transportation | 86 | 825,607 | - | - | - | 19,016 | 844,709 |
| Intergovernmental | 70,316 | - | - | - | - | 22,451 | 92,767 |
| Capital Projects | - | - | - | - | - | 19,048 | 19,048 |
| Debt Service: | | | | | | | |
| Principal | - | - | - | - | - | 5,525 | 5,525 |
| Interest | - | - | - | - | - | 1,852 | 1,852 |
| TOTAL EXPENDITURES | 2,913,203 | 825,607 | 1,800,994 | 122,397 | 33,891 | 364,027 | 6,060,119 |
| Excess of Revenues Over (Under) Expenditures | 173,351 | 8,218 | 20,932 | 39,654 | 39,767 | 4,671 | 286,593 |

OTHER FINANCING SOURCES (USES):

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, 2005

(Dollars in Thousands)

Net change in fund balances—total governmental funds \$ 316,276

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 | 178,649 | |
| Depreciation expense | (51,984) | 126,665 |
| | | |

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 | (1,890) | (1,890) |
| | | |

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. (1,421)

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 | 3,835 | |
| Other financing arrangement payments | 1,690 | |
| Capital lease payments | 3,484 | 9,009 |
| | | |

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. (4,040)

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Unearned revenues increased by this amount this year. 1,229

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:

| | | |
|--|----------|---------|
| Decrease in accrued interest | 57 | |
| Increase in compensated absences | (1,608) | |
| Decrease in claims and judgments | 128,650 | |
| Increase in pension benefit obligation | (15,948) | 111,151 |
| | | |

Change in net assets of governmental activities \$ 556,979

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

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

| (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 | \$ 165,933 | \$ 23,143 | \$ 189,076 | \$ 62,694 |
| Receivables, net of allowance | 32,797 | 6,097 | 38,894 | 2,807 |
| Due from Other Funds | - | 16 | 16 | 54,082 |
| Inventories | - | 2,195 | 2,195 | 285 |
| Prepaid Items | - | 406 | 406 | 1,084 |
| TOTAL CURRENT ASSETS | 198,730 | 31,857 | 230,587 | 120,952 |
| NONCURRENT ASSETS: | | | | |
| Restricted Long-Term Deposits | - | 1,744 | 1,744 | - |
| Long-Term Investments | 28,708 | 51,135 | 79,843 | - |
| Securities Lending Collateral | 9,351 | 3,235 | 12,586 | - |
| Capital Assets: | | | | |
| Land | - | 315 | 315 | - |
| Buildings and Equipment | 373 | 10,617 | 10,990 | 53,943 |
| Less Accumulated Depreciation | (256) | (4,499) | (4,755) | (35,537) |
| Total Capital Assets, net | 117 | 6,433 | 6,550 | 18,406 |
| TOTAL NONCURRENT ASSETS | 38,176 | 62,547 | 100,723 | 18,406 |
| TOTAL ASSETS | \$ 236,906 | \$ 94,404 | \$ 331,310 | \$ 139,358 |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts Payable and Accrued Liabilities | \$ 3,021 | \$ 10,529 | \$ 13,550 | \$ 16,042 |
| Due to Other Funds | - | 39 | 39 | 1,311 |
| Capital Lease Obligations | - | - | - | 2,179 |
| Claims, Judgments and Compensated Absences | 13,090 | 14,444 | 27,534 | 25,248 |
| Unearned Revenue | - | 6,172 | 6,172 | 720 |
| TOTAL CURRENT LIABILITIES | 16,111 | 31,184 | 47,295 | 45,500 |
| NONCURRENT LIABILITIES: | | | | |
| Capital Lease Obligations | - | - | - | 2,267 |
| Claims, Judgments and Compensated Absences | 13 | 26,053 | 26,066 | 42,882 |
| Obligations under Securities Lending | 9,351 | 3,235 | 12,586 | - |
| TOTAL NONCURRENT LIABILITIES | 9,364 | 29,288 | 38,652 | 45,149 |
| TOTAL LIABILITIES | 25,475 | 60,472 | 85,947 | 90,649 |
| NET ASSETS: | | | | |
| Invested in Capital Assets, net of related debt | 117 | 6,118 | 6,235 | 13,960 |
| Restricted for: | | | | |
| Lottery Prizes, Noncurrent | - | 1,744 | 1,744 | - |
| Unemployment Compensation Benefits | 211,314 | - | 211,314 | - |
| Unrestricted | - | 26,070 | 26,070 | 34,749 |
| TOTAL NET ASSETS | 211,431 | 33,932 | 245,363 | 48,709 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 236,906 | \$ 94,404 | \$ 331,310 | \$ 139,358 |

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, 2005

| (Dollars in Thousands) | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|--|---|---------------------------------|------------|--|
| | UNEMPLOYMENT COMPENSATION | NONMAJOR ENTERPRISE FUNDS | TOTALS | ACTIVITIES - INTERNAL SERVICE FUNDS |
| OPERATING REVENUES: | | | | |
| Charges for Services | \$ 133,840 | \$ 124,603 | \$ 258,443 | \$ 280,100 |
| Other | - | 26 | 26 | 5,136 |
| TOTAL OPERATING REVENUES | 133,840 | 124,629 | 258,469 | 285,236 |
| OPERATING EXPENSES: | | | | |
| Personal Services | - | 4,480 | 4,480 | 30,620 |
| Services and Supplies | 131 | 24,884 | 25,015 | 98,792 |
| Lottery Prizes | - | 58,352 | 58,352 | - |
| Unemployment Claims | 114,335 | - | 114,335 | - |
| Insurance Claims | - | 1,451 | 1,451 | 157,259 |
| Depreciation | 30 | 454 | 484 | 5,754 |
| TOTAL OPERATING EXPENSES | 114,496 | 89,621 | 204,117 | 292,425 |
| Operating Income (Loss) | 19,344 | 35,008 | 54,352 | (7,189) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment Income | 9,130 | 4,575 | 13,705 | 2,437 |
| Gain (Loss) on Sale of Capital Assets | (3) | - | (3) | (1,215) |
| Other | - | - | - | 1,927 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 9,127 | 4,575 | 13,702 | 3,149 |
| Income (Loss) Before Transfers | 28,471 | 39,583 | 68,054 | (4,040) |
| Transfers Out | - | (26,372) | (26,372) | - |
| Change in Net Assets | 28,471 | 13,211 | 41,682 | (4,040) |
| NET ASSETS, JULY 1 | 182,960 | 20,721 | 203,681 | 52,749 |
| NET ASSETS, JUNE 30 | \$ 211,431 | \$ 33,932 | \$ 245,363 | \$ 48,709 |

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, 2005

| (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 | \$ 126,212 | \$ 113,714 | \$ 239,926 | \$ 10,979 |
| Cash Received from Interfund Charges | - | 12,556 | 12,556 | 263,097 |
| Cash Paid to Employees | - | (4,368) | (4,368) | (30,774) |
| Cash Paid to Suppliers | (132) | (24,280) | (24,412) | (88,396) |
| Cash Paid for Lottery Prizes | - | (57,261) | (57,261) | - |
| Cash Paid for Insurance Claims | (117,339) | (13,451) | (130,790) | (148,377) |
| Cash Paid for Interfund Services | (7) | (758) | (765) | (6,012) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>8,734</u> | <u>26,152</u> | <u>34,886</u> | <u>517</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Cigarette Tax Proceeds | - | - | - | 2,068 |
| Transfers Out | - | (27,195) | (27,195) | - |
| NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | <u>-</u> | <u>(27,195)</u> | <u>(27,195)</u> | <u>2,068</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Acquisition and Construction of Capital Assets | (144) | (480) | (624) | (6,737) |
| Proceeds from Sale of Capital Assets | 1 | - | 1 | 806 |
| Principal Paid on Capital Leases | - | - | - | (2,168) |
| Interest Paid on Capital Leases | - | - | - | (141) |
| NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(143)</u> | <u>(480)</u> | <u>(623)</u> | <u>(8,240)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchase of Investment Securities | (2,464) | (171,828) | (174,292) | - |
| Proceeds from Sale of Investment Securities | - | 171,125 | 171,125 | - |
| Interest and Dividend Income | 9,007 | 4,243 | 13,250 | 2,277 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | <u>6,543</u> | <u>3,540</u> | <u>10,083</u> | <u>2,277</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 15,134 | 2,017 | 17,151 | (3,378) |
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>150,799</u> | <u>21,126</u> | <u>171,925</u> | <u>66,072</u> |
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u>\$ 165,933</u> | <u>\$ 23,143</u> | <u>\$ 189,076</u> | <u>\$ 62,694</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, 2005

| (Dollars in Thousands) | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|--|--|--|------------------|--|
| | UNEMPLOYMENT COMPENSATION | NONMAJOR ENTERPRISE FUNDS | TOTALS | ACTIVITIES - INTERNAL SERVICE FUNDS |
| RECONCILIATION OF OPERATING INCOME TO NET CASH | | | | |
| FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Operating Income (Loss) | \$ 19,344 | \$ 35,008 | \$ 54,352 | \$ (7,189) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities: | | | | |
| Depreciation | 30 | 454 | 484 | 5,754 |
| Change in Assets and Liabilities: | | | | |
| (Increase) Decrease in Receivables | (7,628) | 218 | (7,410) | (1,164) |
| (Increase) Decrease in Due from Other Funds | - | (16) | (16) | (10,325) |
| (Increase) Decrease in Inventories | - | (188) | (188) | (80) |
| (Increase) Decrease in Prepaid Items | - | 8 | 8 | (196) |
| (Increase) Decrease in Long-Term Deposits | - | (32) | (32) | - |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | (8) | 1,268 | 1,260 | 4,433 |
| Increase (Decrease) in Due to Other Funds | - | (7) | (7) | 73 |
| Increase (Decrease) in Claims Payable | (3,004) | (12,000) | (15,004) | 8,882 |
| Increase (Decrease) in Unearned Revenue | - | 1,439 | 1,439 | 329 |
| Total Adjustments | (10,610) | (8,856) | (19,466) | 7,706 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 8,734 | \$ 26,152 | \$ 34,886 | \$ 517 |
| 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 | \$ - | \$ - | \$ - | \$ 1,923 |
| Change in Fair Value of Investments | - | 454 | 454 | - |
| Total Noncash Transactions | \$ - | \$ 454 | \$ 454 | \$ 1,923 |

State of Nebraska

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

| (Dollars in Thousands) | PENSION TRUST | PRIVATE PURPOSE TRUST | AGENCY |
|--|---------------------|--------------------------|------------------|
| ASSETS: | | | |
| Cash and Cash Equivalents | \$ 4,356 | \$ 26,311 | \$ 79,214 |
| Investments: | | | |
| U.S. Treasury Securities | 319,769 | - | - |
| U.S. Agency Securities | 466,510 | - | - |
| Corporate Bonds | 302,598 | - | - |
| Equity Securities | 715,662 | - | - |
| Options | (626) | - | - |
| Municipal Bonds | 3,060 | - | - |
| Real Estate Investment Trust | 100,330 | - | - |
| Pooled Investment Contracts | 120,774 | - | - |
| Collateral Mortgage Obligations | 143,451 | - | - |
| Asset Backed Securities | 113,891 | - | - |
| Mutual Funds and Commercial Paper | 4,851,715 | 950,197 | - |
| Total Investments | <u>7,137,134</u> | <u>950,197</u> | - |
| Securities Lending Collateral | 357,658 | - | - |
| Receivables: | | | |
| Contributions | 15,271 | - | - |
| Interest and Dividends | 13,749 | 1,012 | 560 |
| Other | 122,392 | 2 | 940 |
| Total Receivables | <u>151,412</u> | <u>1,014</u> | <u>1,500</u> |
| Due from Other Funds | 19,074 | - | - |
| Capital Assets: | | | |
| Buildings and Equipment | 16,435 | - | - |
| Less Accumulated Depreciation | (6,689) | - | - |
| Total Capital Assets, net | <u>9,746</u> | <u>-</u> | <u>-</u> |
| Other Assets | - | 10,853 | - |
| TOTAL ASSETS | <u>\$ 7,679,380</u> | <u>\$ 988,375</u> | <u>\$ 80,714</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES: | | | |
| Accounts Payable and Accrued Liabilities | \$ 246,605 | \$ 1,784 | 10,776 |
| Due to Other Governments | - | - | 47,115 |
| Deposits | - | 795 | - |
| Due to Other Funds | 88 | 2,400 | 1,715 |
| Obligations under Securities Lending | 357,658 | - | - |
| Capital Lease Obligations | 11,428 | - | - |
| Accrued Compensated Absences | 305 | - | - |
| Other Liabilities | - | - | 21,108 |
| TOTAL LIABILITIES | <u>616,084</u> | <u>4,979</u> | <u>80,714</u> |
| NET ASSETS: | | | |
| Held in Trust for: | | | |
| Pension Benefits | 7,063,296 | - | - |
| Other Purposes | - | 983,396 | - |
| TOTAL NET ASSETS | <u>7,063,296</u> | <u>983,396</u> | <u>-</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,679,380</u> | <u>\$ 988,375</u> | <u>\$ 80,714</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, 2005

(Dollars in Thousands)

| | PENSION TRUST | PRIVATE PURPOSE TRUST |
|---|---------------------|--------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Participant Contributions | \$ 136,599 | \$ 375,544 |
| Client Contributions | - | 141 |
| State Contributions | 69,581 | - |
| Political Subdivision Contributions | 89,806 | - |
| Court Fees | 2,195 | - |
| Total Contributions | <u>298,181</u> | <u>375,685</u> |
| Investment Income: | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 504,953 | 58,877 |
| Interest and Dividend Income | 116,591 | 18,033 |
| Securities Lending Income | 9,349 | - |
| Total Investment Income | <u>630,893</u> | <u>76,910</u> |
| Investment Expenses | 9,033 | 5,550 |
| Securities Lending Expenses | 8,628 | - |
| Total Investment Expense | <u>17,661</u> | <u>5,550</u> |
| Net Investment Income | <u>613,232</u> | <u>71,360</u> |
| Escheat Revenue | - | 15,451 |
| Other Additions | 118 | 12,605 |
| TOTAL ADDITIONS | <u>911,531</u> | <u>475,101</u> |
| DEDUCTIONS: | | |
| Benefits | 248,629 | 101,525 |
| Refunds | 10,079 | - |
| Amounts Distributed to Outside Parties | - | 13,431 |
| Administrative Expenses | 8,545 | 1,530 |
| TOTAL DEDUCTIONS | <u>267,253</u> | <u>116,486</u> |
| Change in Net Assets Held in Trust for: | | |
| Pension Benefits | 644,278 | - |
| Other Purposes | - | 358,615 |
| NET ASSETS-BEGINNING OF YEAR AS RESTATED | <u>6,419,018</u> | <u>624,781</u> |
| NET ASSETS-END OF YEAR | <u>\$ 7,063,296</u> | <u>\$ 983,396</u> |

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

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2005

(Dollars in Thousands)

| | UNIVERSITY OF NEBRASKA | STATE COLLEGES | TOTALS |
|---|---------------------------|-------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 217,518 | \$ 14,796 | \$ 232,314 |
| Receivables, net of allowance | | | |
| Loans | 36,751 | 2,785 | 39,536 |
| Other | 172,798 | 1,430 | 174,228 |
| Due from Primary Government | - | 363 | 363 |
| Investments | 1,283,102 | 26,145 | 1,309,247 |
| Investment in Joint Venture | 163,084 | - | 163,084 |
| Other Assets | 30,622 | 996 | 31,618 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 227,812 | 12,932 | 240,744 |
| Investments Held by Trustee | - | 2,842 | 2,842 |
| Capital assets: | | | |
| Land | 53,278 | 680 | 53,958 |
| Land Improvements | 92,733 | 15,515 | 108,248 |
| Construction in Progress | 124,934 | 11,525 | 136,459 |
| Buildings and Equipment | 1,312,150 | 120,464 | 1,432,614 |
| Less Accumulated Depreciation | <u>(490,142)</u> | <u>(54,030)</u> | <u>(544,172)</u> |
| Total Capital Assets, net of depreciation | <u>1,092,953</u> | <u>94,154</u> | <u>1,187,107</u> |
| Total Assets | <u>\$ 3,224,640</u> | <u>\$ 156,443</u> | <u>\$ 3,381,083</u> |
| LIABILITIES | | | |
| Accounts Payable and Accrued Liabilities | \$ 112,897 | \$ 6,576 | \$ 119,473 |
| Deposits | 7,882 | 405 | 8,287 |
| Deferred Revenue | 69,956 | 328 | 70,284 |
| Noncurrent Liabilities: | | | |
| Due within one year | 52,605 | 4,518 | 57,123 |
| Due in more than one year | <u>388,361</u> | <u>30,290</u> | <u>418,651</u> |
| Total Liabilities | <u>\$ 631,701</u> | <u>\$ 42,117</u> | <u>\$ 673,818</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, net of related debt | \$ 733,777 | \$ 61,529 | \$ 795,306 |
| Restricted for: | | | |
| Education | 111,000 | - | 111,000 |
| Other Purposes | 1,237,187 | 27,450 | 1,264,637 |
| Construction and Debt Service | 106,397 | 12,171 | 118,568 |
| Unrestricted | <u>404,578</u> | <u>13,176</u> | <u>417,754</u> |
| Total Net Assets | <u>\$ 2,592,939</u> | <u>\$ 114,326</u> | <u>\$ 2,707,265</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, 2005

(Dollars in Thousands)

| | UNIVERSITY OF NEBRASKA | STATE COLLEGES | TOTALS |
|-------------------------------------|---------------------------|-------------------|---------------------|
| Operating Expenses: | | | |
| Compensation and benefits | \$ 800,611 | \$ 44,986 | \$ 845,597 |
| Supplies and materials | 207,229 | 5,203 | 212,432 |
| Contractual services | 95,073 | 3,140 | 98,213 |
| Repairs and maintenance | 43,922 | 2,005 | 45,927 |
| Utilities | 27,812 | 3,100 | 30,912 |
| Communications | 12,059 | 1,003 | 13,062 |
| Depreciation | 58,241 | 2,908 | 61,149 |
| Scholarships and fellowships | 111,083 | 913 | 111,996 |
| Other | 11,194 | 9,487 | 20,681 |
| Total Operating Expenses | <u>1,367,224</u> | <u>72,745</u> | <u>1,439,969</u> |
| Program Revenues: | | | |
| Charges for Services | 522,338 | 24,121 | 546,459 |
| Operating Grants and Contributions | 355,871 | 11,295 | 367,166 |
| Capital Grants and Contributions | 5,350 | 816 | 6,166 |
| Total Program Revenues | <u>883,559</u> | <u>36,232</u> | <u>919,791</u> |
| Net (Expense) Revenue | <u>(483,665)</u> | <u>(36,513)</u> | <u>(520,178)</u> |
| General Revenue: | | | |
| Interest and investment earnings | 62,154 | 1,762 | 63,916 |
| Payments from the State of Nebraska | 411,909 | 39,495 | 451,404 |
| Miscellaneous | 161,474 | 3,307 | 164,781 |
| Total General Revenues | <u>635,537</u> | <u>44,564</u> | <u>680,101</u> |
| Change in Net Assets | 151,872 | 8,051 | 159,923 |
| Net Assets - Beginning | <u>2,441,067</u> | <u>106,275</u> | <u>2,547,342</u> |
| Net Assets - Ending | <u>\$ 2,592,939</u> | <u>\$ 114,326</u> | <u>\$ 2,707,265</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

A. Basis of Presentation. The accompanying 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 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. Chadron State, Peru State and Wayne State Foundations are tax-exempt nonprofit corporations whose purpose is to provide financial support for the Nebraska State College System. 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 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; the Nebraska Utility Corporation, formed to purchase, lease, construct and finance activities relating to energy requirements of the University of Nebraska-Lincoln; the Peter Kiewit Institute Technology Development Corporation, a nonprofit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research; and the University of Nebraska Foundation, a tax-exempt nonprofit corporation whose purpose is to provide financial support for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State. Audit reports have been issued under separate cover.

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

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Finance 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 governmental activities unrestricted net assets of \$804,266. 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.

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, 2005, 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

operating 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. The State Treasurer is the custodian of all funds for the State; however, investments are under the responsibility of the Nebraska Investment Council 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. Infrastructure acquired prior to June 30, 1980, is reported.

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. Interfund services provided and used are accounted for as revenues, expenditures or expenses in the funds involved. 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, 2005, 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, 2005, the carrying amounts of the State's deposits were \$116,518 and the bank balances were \$162,928. 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. The State Treasurer had compensating balance agreements with various banks totaling \$46,959 at June 30, 2005.

Investments. State Statute Section 72-1239.01 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 investment amounts for some funds presented in the fiduciary fund financial statements reflected audited financial statements for the period ended December 31, 2004. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2005.

The primary government's investments at June 30, 2005, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

PRIMARY GOVERNMENT INVESTMENTS AT JUNE 30, 2005

| | GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES | | FIDUCIARY FUNDS | |
|---|--|-----------------------|---------------------|-----------------------|
| | FAIR VALUE | EFFECTIVE DURATION | FAIR VALUE | EFFECTIVE DURATION |
| Debt Securities | | | | |
| U.S. Treasury Securities | \$ 580,296 | 3.99 | \$ 319,769 | 4.81 |
| U.S. Agency Securities | 805,755 | 3.28 | 466,510 | 4.07 |
| Corporate Bonds | 411,266 | 4.07 | 302,598 | 4.79 |
| Collateral Mortgage Obligations | 26,624 | 2.59 | 143,451 | 2.26 |
| Asset Backed Securities | 17,282 | 4.07 | 113,891 | 4.79 |
| Commercial Paper | 258,814 | 0.07 | 60,868 | 0.32 |
| Money Market Mutual Funds | 68,747 | 0.43 | 35,654 | 4.12 |
| Municipal Bonds | 1,424 | 10.31 | 3,060 | 6.41 |
| | <u>2,170,208</u> | | <u>1,445,801</u> | |
| Other Investments | | | | |
| Equity Securities | 44,642 | | 715,662 | |
| Mutual Funds | 389,787 | | 5,704,306 | |
| Options | (114) | | (626) | |
| Foreign Currency | - | | 1,084 | |
| Real Estate Investment Trust | - | | 100,330 | |
| Investment Contracts | 537 | | 120,774 | |
| U.S. Treasury Investment Pool | 159,020 | | - | |
| Less: Component Unit Investment in State Investment Pool | <u>(331,416)</u> | | <u>-</u> | |
| Total Investments | 2,432,664 | | 8,087,331 | |
| Securities Lending Short-term Collateral Investment Pool | <u>488,541</u> | | <u>357,658</u> | |
| Total | <u>\$ 2,921,205</u> | | <u>\$ 8,444,989</u> | |

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum quality ratings for securities. The primary government's rated debt investments as of June 30, 2005, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES INVESTMENTS AT JUNE 30, 2005

| | FAIR VALUE | QUALITY RATINGS | | | | | | | |
|---------------------------------|---------------|-----------------|---------|--------|-------|-------|------|---------|-----------|
| | | AAA | AA | A | BBB | BB | B | A-1 | UNRATED |
| U.S. Agency Securities | \$ 805,755 | \$ 773,203 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 32,552 |
| Corporate Bonds | 411,266 | 171,177 | 163,451 | 61,278 | 9,421 | 5,621 | 318 | - | - |
| Collateral Mortgage Obligations | 26,624 | 19,059 | 296 | 322 | 198 | 203 | 381 | - | 6,165 |
| Asset Backed Securities | 17,282 | 10,993 | - | 161 | 379 | - | - | - | 5,749 |
| Commercial Paper | 258,814 | - | - | - | - | - | - | 251,470 | 7,344 |
| Money Market Mutual Funds | 68,747 | - | - | - | - | - | - | - | 68,747 |
| Municipal Bonds | 1,424 | - | - | - | 791 | - | - | - | 633 |

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2005

| | FAIR VALUE | QUALITY RATINGS | | | | | | | |
|---------------------------------|---------------|-----------------|--------|--------|--------|--------|--------|--------|-----------|
| | | AAA | AA | A | BBB | BB | B | A-1 | UNRATED |
| U.S. Agency Securities | \$ 497,248 | \$ 410,544 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 86,704 |
| Corporate Bonds | 321,736 | 31,762 | 38,939 | 98,233 | 81,562 | 44,275 | 13,217 | - | 13,748 |
| Collateral Mortgage Obligations | 149,809 | 109,481 | 17,573 | 5,889 | 9,184 | 619 | 1,516 | - | 5,547 |
| Asset Backed Securities | 129,023 | 87,808 | 251 | 1,250 | 12,046 | 1,068 | 896 | - | 25,704 |
| Commercial Paper | 35,654 | - | - | - | - | - | - | 17,659 | 17,995 |
| Money Market Mutual Funds | 136,437 | - | - | - | - | - | - | - | 136,437 |
| Municipal Bonds | 2,570 | 1,522 | 1,048 | - | - | - | - | - | - |

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages and non-U.S. sovereign issuers, to 5 percent of the total account.

At June 30, 2005, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent or more of total investments in Federal Farm Credit Bank (7 percent), Federal Home Loan Bank (7 percent), Federal Home Loan Mortgage Corporation (7 percent), and Federal National Mortgage Corporation (8 percent). Fiduciary funds had no investments that exceeded 5 percent or more of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State has contracts with investment managers that limit foreign currency risk. Fiduciary fund exposure to foreign currency risk is presented on the following table.

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2005

| | CASH | EQUITY SECURITIES | CORPORATE BONDS |
|--------------------|-----------------|----------------------|--------------------|
| Currency | | | |
| Australian Dollar | \$ 35 | \$ 2,336 | \$ - |
| Danish Krone | - | 2,001 | - |
| Euro Currency | 601 | 69,885 | 420 |
| Hong Kong Dollar | - | 5,469 | - |
| Japanese Yen | 217 | 49,138 | 4,272 |
| Malaysian Ringgit | 15 | - | - |
| Mexican Peso | - | 3,750 | - |
| Norwegian Krone | - | 2,084 | - |
| Pound Sterling | 207 | 45,709 | - |
| Singapore Dollar | - | 1,357 | - |
| South African Rand | - | 1,609 | - |
| South Korean Won | 9 | 2,981 | - |
| Swedish Krona | - | 2,384 | - |
| Swiss Franc | - | 13,633 | - |
| Thailand Baht | - | 1,627 | - |
| Total | <u>\$ 1,084</u> | <u>\$ 203,963</u> | <u>\$ 4,692</u> |

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2005, is as follows:

Disclosure Regarding Deposits and Investments:

| | |
|-----------------------------|----------------------|
| Total Investments | \$ 11,366,194 |
| Carrying amount of Deposits | 116,518 |
| Total | <u>\$ 11,482,712</u> |

Statement of Net Assets:

| | |
|--------------------------------------|------------|
| Cash and Cash Equivalents | \$ 411,114 |
| Investments | 2,010,595 |
| Restricted Cash and Cash Equivalents | 17,592 |
| Securities Lending Collateral | 488,541 |

Statement of Fiduciary Net Assets:

| | |
|-------------------------------|----------------------|
| Cash and Cash Equivalents | 109,881 |
| Investments | 8,087,331 |
| Securities Lending Collateral | 357,658 |
| Total | <u>\$ 11,482,712</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 primary 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. 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 25 and 32 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. Over 80% of all such instruments are pension trust investments; the remaining are endowment investments. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives Policy. The State invests in collateral mortgage obligations and futures contracts. Collateral mortgage obligations, with a par value of \$347,023, 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 and futures based on reference notes, 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, 2005, the State held futures contracts with a par value of \$173,000 and a fair value of \$0.

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2005:

Governmental Activities:

| | |
|---------------------------------|------------------|
| General Fund | \$ 13,499 |
| Federal Fund | 17,177 |
| Health and Social Services Fund | 9,861 |
| Total Governmental Activities | <u>\$ 40,537</u> |

Business-type Activities:

| | |
|--------------------------------|-----------------|
| Unemployment Compensation | <u>\$ 6,067</u> |
| Total Business-type Activities | <u>\$ 6,067</u> |

Of the taxes and other receivables, \$10,509 and \$17,887, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

| | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE |
|--|------------------------------|-------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 472,775 | \$ 22,502 | \$ 1,210 | \$ 494,067 |
| Infrastructure | 6,155,691 | 105,891 | - | 6,261,582 |
| Construction in progress | 55,288 | 11,331 | 735 | 65,884 |
| Total capital assets, not being depreciated | <u>6,683,754</u> | <u>139,724</u> | <u>1,945</u> | <u>6,821,533</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 430,682 | 5,908 | 7,450 | 429,140 |
| Equipment | 332,675 | 38,701 | 35,523 | 335,853 |
| Total capital assets, being depreciated | <u>763,357</u> | <u>44,609</u> | <u>42,973</u> | <u>764,993</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 188,685 | 14,138 | 2,828 | 199,995 |
| Equipment | 230,243 | 43,599 | 43,026 | 230,816 |
| Total accumulated depreciation | <u>418,928</u> | <u>57,737</u> | <u>45,854</u> | <u>430,811</u> |
| Total capital assets, being depreciated, net | <u>344,429</u> | <u>(13,128)</u> | <u>(2,881)</u> | <u>334,182</u> |
| Governmental activities capital assets, net | <u>\$ 7,028,183</u> | <u>\$ 126,596</u> | <u>\$ (936)</u> | <u>\$ 7,155,715</u> |
| Business-type activities: | | | | |
| Unemployment Compensation | | | | |
| Equipment, being depreciated | \$ 251 | \$ 144 | \$ 22 | \$ 373 |
| Less accumulated depreciation | 244 | 30 | 18 | 256 |
| Total Unemployment Compensation, net | <u>7</u> | <u>114</u> | <u>4</u> | <u>117</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 | 6,023 | 71 | - | 6,094 |
| Equipment | 4,124 | 399 | - | 4,523 |
| Total capital assets, being depreciated | <u>10,147</u> | <u>470</u> | <u>-</u> | <u>10,617</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,448 | 173 | - | 1,621 |
| Equipment | 2,597 | 281 | - | 2,878 |
| Total accumulated depreciation | <u>4,045</u> | <u>454</u> | <u>-</u> | <u>4,499</u> |
| Total capital assets, being depreciated, net | <u>6,102</u> | <u>16</u> | <u>-</u> | <u>6,118</u> |
| Total Nonmajor Enterprise, net | <u>6,417</u> | <u>16</u> | <u>-</u> | <u>6,433</u> |
| Business-type activities capital assets, net | <u>\$ 6,424</u> | <u>\$ 130</u> | <u>\$ 4</u> | <u>\$ 6,550</u> |

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

| | |
|--|------------------|
| Governmental activities: | |
| General Government | \$ 24,101 |
| Conservation of Natural Resources | 1,654 |
| Culture – Recreation | 1,709 |
| Economic Development and Assistance | 272 |
| Education | 4,129 |
| Health and Social Services | 861 |
| Public Safety | 7,690 |
| Regulation of Business and Professions | 272 |
| Transportation | 17,049 |
| Total depreciation expense - Governmental activities | <u>\$ 57,737</u> |

Construction Commitments. At June 30, 2005, the State had contractual commitments of approximately \$599,081 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

| | |
|---------------|-------------------|
| Federal funds | \$ 103,296 |
| State funds | 463,879 |
| Local funds | 31,906 |
| | <u>\$ 599,081</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, 2005, consists of the following:

| | DUE TO | | | | | | | | | TOTALS |
|-----------------------------|---------------------|---------------------|---------------------|-----------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|------------------------|-------------------|
| | General Fund | Highway Fund | Federal Fund | Health and Social Services | Permanent School Fund | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | |
| DUE FROM | | | | | | | | | | |
| General Fund | \$ - | \$ 91 | \$ 843 | \$ 83 | \$ - | \$ 128 | \$ 5 | \$ 28,180 | \$ 18,412 | \$ 47,742 |
| Highway Fund | 1 | - | 2 | - | - | 284 | - | 6,409 | 10 | 6,706 |
| Federal Fund | 66,823 | 10 | - | 2,576 | - | 1,729 | 10 | 2,389 | 1 | 73,538 |
| Health and Social Services | 17 | - | 1,496 | - | - | 2,149 | - | 13,011 | - | 16,673 |
| Permanent School Fund | - | - | - | - | - | - | - | 2 | - | 2 |
| Nonmajor Governmental Funds | 3,937 | 22 | 580 | 1 | - | 58 | 1 | 3,745 | 651 | 8,995 |
| Nonmajor Enterprise Funds | 5 | - | - | - | - | - | - | 34 | - | 39 |
| Internal Service Funds | 253 | 475 | 88 | 62 | 29 | 163 | - | 241 | - | 1,311 |
| Fiduciary Funds | - | - | 1,715 | - | 2,389 | 28 | - | 71 | - | 4,203 |
| TOTALS | \$ 71,036 | \$ 598 | \$ 4,724 | \$ 2,722 | \$ 2,418 | \$ 4,539 | \$ 16 | \$ 54,082 | \$ 19,074 | \$ 159,209 |

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 \$47,400 due from the General Fund, Highway Fund, Health and Social Services, and Nonmajor Governmental Funds to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2005, consist of the following:

| | TRANSFERRED TO: | | | | | TOTALS |
|-------------------------------|------------------------|---------------------|---------------------|-----------------------------------|------------------------------------|-------------------|
| | General Fund | Highway Fund | Federal Fund | Health and Social Services | Nonmajor Governmental Funds | |
| TRANSFERRED FROM: | | | | | | |
| General Fund | \$ - | \$ - | \$ - | \$ - | \$ 27,313 | \$ 27,313 |
| Highway Fund | 2,000 | - | - | - | 7,647 | 9,647 |
| Federal Fund | - | - | - | - | 19,632 | 19,632 |
| Health & Social Services Fund | 1,347 | - | - | - | 559 | 1,906 |
| Nonmajor Governmental Funds | 46,412 | 13,007 | 2 | 50 | 8,380 | 67,851 |
| Nonmajor Enterprise Funds | 5,000 | - | - | 708 | 20,664 | 26,372 |
| TOTALS | \$ 54,759 | \$ 13,007 | \$ 2 | \$ 758 | \$ 84,195 | \$ 152,721 |

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 financial statements at June 30, 2005, 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 | \$ 12,069 | \$ 6,040 | \$ 3,183 | \$ 662 | \$ - | \$ 1,653 | \$ 1,662 | \$ 2 | \$ 237 | \$ 25,508 |
| Payables and Accruals | 63,441 | 55,911 | 56,009 | 32,155 | 22,667 | 21,600 | 13,128 | 2,855 | 10,222 | 277,988 |
| Due to Fiduciary Funds * | - | - | - | - | - | - | 19,074 | - | - | 19,074 |
| Miscellaneous | 679 | - | 795 | 197 | 7 | 4,388 | 1,032 | 164 | 70 | 7,332 |
| TOTALS | \$ 76,189 | \$ 61,951 | \$ 59,987 | \$ 33,014 | \$ 22,674 | \$ 27,641 | \$ 34,896 | \$ 3,021 | \$ 10,529 | \$ 329,902 |

* 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, 2005, are summarized as follows:

| | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE | AMOUNTS DUE WITHIN ONE YEAR |
|--|-------------------|---------------------|---------------------|-------------------|-----------------------------|
| Governmental Activities: | | | | | |
| Claims Payable | \$ 393,605 | \$ 1,518,628 | \$ 1,494,550 | \$ 417,683 | \$ 348,063 |
| Bonds Payable | 27,265 | - | 3,835 | 23,430 | 3,995 |
| Capital Lease Obligations | 27,235 | 3,344 | 5,652 | 24,927 | 5,903 |
| Obligations Under Other Financing Arrangements | 11,230 | 1,890 | 1,690 | 11,430 | 665 |
| Compensated Absences | 108,974 | 18,508 | 17,236 | 110,246 | 15,909 |
| Pension Benefit Obligation | 112 | 15,948 | - | 16,060 | - |
| Totals | \$ 568,421 | \$ 1,558,318 | \$ 1,522,963 | \$ 603,776 | \$ 374,535 |
| Business-type Activities: | | | | | |
| Unemployment Compensation: | | | | | |
| Claims Payable | \$ 15,114 | \$ 115,313 | \$ 117,339 | \$ 13,088 | \$ 13,088 |
| Compensated Absences | 65 | 4 | 54 | 15 | 2 |
| Totals for Unemployment Compensation | 15,179 | 115,317 | 117,393 | 13,103 | 13,090 |
| Nonmajor Enterprise Funds: | | | | | |
| Claims Payable | 52,000 | 1,451 | 13,451 | 40,000 | 14,373 |
| Compensated Absences | 412 | 144 | 59 | 497 | 71 |
| Totals for Nonmajor Enterprise Funds | 52,412 | 1,595 | 13,510 | 40,497 | 14,444 |
| Totals for Business-type Activities | \$ 67,591 | \$ 116,912 | \$ 130,903 | \$ 53,600 | \$ 27,534 |

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, 2005, 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, 2005 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, 2005 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, 2005 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, 2005 |
|---|-------------------------|---------------------------|---------------------------|--------------------------------------|
| PRIMARY GOVERNMENT | | | | |
| NETC Leasing Corporation Issue | 2000,2002 | 2001-2010 | 2.70%-6.00% | \$ 20,810 |
| Nebraska State Building Corporation Issue | 2002 | 2002-2009 | 1.50%-3.85% | 2,620 |
| Primary Government Total | | | | <u>\$ 23,430</u> |
| COMPONENT UNITS | | | | |
| University of Nebraska | 1993-2004 | 1993-2038 | 1.60%-5.70% | \$ 368,595 |
| Nebraska State Colleges | 1999-2003 | 2001-2028 | 1.60%-5.05% | 32,525 |
| Component Units Total | | | | <u>\$ 401,120</u> |

| PRIMARY GOVERNMENT DEBT SERVICE REQUIREMENTS TO MATURITY | | | |
|---|------------------|-----------------|------------------|
| YEAR | PRINCIPAL | INTEREST | TOTAL |
| 2006 | 3,995 | 1,209 | 5,204 |
| 2007 | 4,195 | 1,014 | 5,209 |
| 2008 | 4,405 | 808 | 5,213 |
| 2009 | 5,985 | 584 | 6,569 |
| 2010 | 4,850 | 291 | 5,141 |
| Total | <u>\$ 23,430</u> | <u>\$ 3,906</u> | <u>\$ 27,336</u> |

| COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY | | | |
|--|-------------------|-------------------|-------------------|
| YEAR | PRINCIPAL | INTEREST | TOTAL |
| 2006 | 27,890 | 18,698 | 46,588 |
| 2007 | 25,100 | 17,495 | 42,595 |
| 2008 | 25,440 | 16,393 | 41,833 |
| 2009 | 29,340 | 15,200 | 44,540 |
| 2010 | 30,240 | 13,875 | 44,115 |
| 2011-2015 | 98,980 | 55,094 | 154,074 |
| 2016-2020 | 63,040 | 35,143 | 98,183 |
| 2021-2025 | 50,750 | 19,389 | 70,139 |
| Thereafter | 50,340 | 16,932 | 67,272 |
| Total | <u>\$ 401,120</u> | <u>\$ 208,219</u> | <u>\$ 609,339</u> |

Bond Defeasances – Component Units

On July 15, 2003, the University of Nebraska at Kearney issued \$3,705 of Refunding Bonds to refund \$520 of outstanding 1993 Series Bonds and \$3,495 of outstanding 1994 Series Bonds. As a result, the 1993 and 1994 bonds have been removed from the Statement of Net Assets. The refunding reduced total debt service payments by approximately \$890 and resulted in an economic gain of approximately \$382.

In 2004, the University of Nebraska Board of Regents authorized its own Series 2004A Revenue and Refunding Bonds. On June 3, 2004, the Board of Regents paid to the University of Nebraska Facilities Corporation \$13,358 and \$1,918, which was deposited into an irrevocable trust with an escrow agent to defease outstanding 1997 Series Bonds maturing on or after November 1, 2005 and on November 1, 2004, respectively. As a result, the 1997 bonds are considered to be defeased. This transaction reduced total debt service payments by approximately \$461 and resulted in an economic gain of approximately \$109.

In prior years, the University and its component units defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the

University's financial statements. At June 30, 2005, \$24,060 of defeased 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, 2005 are as follows:

| YEAR | GOVERNMENTAL ACTIVITIES |
|--|----------------------------|
| 2006 | \$ 6,787 |
| 2007 | 6,287 |
| 2008 | 4,678 |
| 2009 | 4,463 |
| 2010 | 2,028 |
| 2011-2015 | 2,657 |
| 2016-2020 | <u>1,350</u> |
| Total Minimum Payments | 28,250 |
| Less: Interest and executory costs | <u>3,323</u> |
| Present value of net minimum payments | <u>\$ 24,927</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, 2005:

| | GOVERNMENTAL ACTIVITIES |
|-----------------------------------|----------------------------|
| Buildings | \$ 7,070 |
| Equipment | 35,338 |
| Less: accumulated depreciation | <u>(16,558)</u> |
| Carrying value | <u>\$ 25,850</u> |

The minimum annual lease payments for operating leases as of June 30, 2005 are as follows:

| YEAR | GOVERNMENTAL ACTIVITIES |
|-----------|----------------------------|
| 2006 | \$ 8,158 |
| 2007 | 3,620 |
| 2008 | 3,180 |
| 2009 | 3,121 |
| 2010 | 3,091 |
| 2011-2015 | 2,703 |
| 2016-2020 | <u>534</u> |
| Total | <u>\$ 24,407</u> |

Primary Government operating lease payments for the year ended June 30, 2005 totaled \$12,921.

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, 2005, the State owned approximately 1.5 million acres of land that was under lease, with a cost and carrying amount of \$3,000. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$26,001 were received under these and other lease agreements for the year ended June 30, 2005.

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 1.60 percent to 5.70 percent is as follows:

| YEAR | PRINCIPAL | INTEREST | TOTAL |
|-----------|------------------|-----------------|------------------|
| 2006 | \$ 665 | \$ 533 | \$ 1,198 |
| 2007 | 710 | 488 | 1,198 |
| 2008 | 735 | 460 | 1,195 |
| 2009 | 770 | 430 | 1,200 |
| 2010 | 805 | 397 | 1,202 |
| 2011-2015 | 4,595 | 1,393 | 5,988 |
| 2016-2020 | <u>3,150</u> | <u>225</u> | <u>3,375</u> |
| Total | <u>\$ 11,430</u> | <u>\$ 3,926</u> | <u>\$ 15,356</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 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. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2004.

Participation in the plan is required for all permanent full-time employees upon completion of 12 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, 2004, there were 15,025 active members and 2,166 inactive members. Members contributed \$23,709 and the State contributed \$37,083 during the year ended December 31, 2004, 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. This multiple-employer plan covers employees of 91 of the 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees by State law. Prior to January 1, 2003, the plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2004.

Participation in the plan is required of all full-time employees upon the completion of 12 months of continuous service and of all full-time elected officials. Full-time or part-time employees (working less than one-half of regularly scheduled hours) may elect voluntary participation upon reaching age 20 and completing a total of 12 months service within a five-year period. Part-time elected officials may exercise the option to join. County employees and elected officials contribute four and one half percent and commissioned law enforcement personnel (for participating counties with an excess of 85,000 inhabitants) contribute five and one half percent of their total compensation. The counties match a member's contribution at a rate of 150 percent. The State is not required to contribute to this plan.

As of December 31, 2004, there were 6,583 active members and 1,014 inactive members. Members contributed \$7,959 and counties contributed \$11,863 during the year ended December 31, 2004, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 515 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 was 7.25 percent of their total pay to August 31, 2005, and 7.98 percent through August 31, 2006. 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 twelve percent of their monthly salary, which is matched by the State Patrol. The State's contribution is based on an annual actuarial valuation.

The following tables provide the schedules of funding progress and the primary actuarial assumptions used in the most recent actuarial reports 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 (Unfunded AAL) | (a/b) Funded Ratio | (c) Covered Payroll | ((a-b)/c) Excess/UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|--|---|--------------------------|---------------------------|---|
| State Cash Balance | | | | | | |
| 12/31/2004 | \$ 297,573 | \$ 272,300 | \$ 25,273 | 109.3 % | \$ 192,619 | 13.1 % |
| 12/31/2003 | 254,176 | 241,192 | 12,984 | 105.4 | 171,324 | 7.6 |
| Judges' | | | | | | |
| 6/30/2005 | \$ 94,923 | \$ 98,513 | \$ (3,590) | 96.4 % | \$ 16,285 | (22.0)% |
| 6/30/2004 | 92,811 | 95,671 | (2,860) | 97.0 | 16,655 | (17.2) |
| 6/30/2003 | 91,864 | 85,388 | 6,476 | 107.6 | 16,402 | 39.5 |
| State Patrol | | | | | | |
| 6/30/2005 | \$ 219,831 | \$ 236,026 | \$ (16,195) | 93.1 % | \$ 22,882 | (70.8)% |
| 6/30/2004 | 216,423 | 222,162 | (5,739) | 97.4 | 22,641 | (25.3) |
| 6/30/2003 | 214,657 | 210,931 | 3,726 | 101.8 | 21,929 | 17.0 |

| | STATE CASH BALANCE | JUDGES' RETIREMENT | STATE PATROL RETIREMENT |
|-------------------------------|-----------------------------|-----------------------------|-------------------------------|
| Actuarial Valuation Date | 12/31/2004 | 6/30/2005 | 6/30/2005 |
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age |
| Amortization Method | Level Amount Closed | Level Amount Closed | Level Amount Closed |
| Amortization Period | 25 Years | 24 Years | 25 Years |
| Mortality | 1994 Group Annuity Table | 1994 Group Annuity Table | 1994 Group Annuity Table |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | |
| Investment Rate of Return ** | 7.6% | 8.0% | 8.0% |
| Projected Salary Increases ** | Graded 9.1% to 4.5% | 5.0% | Graded 12.0% to 4.5% |

** Includes assumed inflation of 3.5% per year.

| UNAUDITED THREE-YEAR TREND INFORMATION | | | |
|--|---------------------------|-------------------------------|------------------------|
| YEAR ENDED JUNE 30 | ANNUAL PENSION COST (APC) | PERCENTAGE OF APC CONTRIBUTED | NET PENSION OBLIGATION |
| State Cash Balance | | | |
| 2005 | \$ 13,171 | 100% | \$ - |
| 2004 | 11,226 | 100% | - |
| County Cash Balance | | | |
| 2005 | \$ 4,869 | 100% | \$ - |
| 2004 | 4,093 | 100% | - |
| School | | | |
| 2005 | \$ 29,786 | 90% | \$ 14,928 |
| 2004 | 14,155 | 100% | - |
| 2003 | 13,120 | 100% | - |
| Judges' | | | |
| 2005 | \$ 2,712 | 84% | \$ 434 |
| 2004 | 2,074 | 100% | - |
| 2003 | 1,292 | 50% | 646 |
| State Patrol | | | |
| 2005 | \$ 3,876 | 82% | \$ 698 |
| 2004 | 3,019 | 96% | 112 |
| 2003 | 2,653 | 100% | - |

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. Management believes 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 all of these proceedings. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

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 \$1,750 per occurrence. The State initially was 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 majority of the claims have been settled and only a few remain. 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 the remaining 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 (\$8,224), which resulted in a liability of \$51,999.

Changes in the balances of claims liabilities during the years ended June 30, 2005, and 2004, were as follows:

| | Fiscal Year | |
|---|------------------|------------------|
| | 2005 | 2004 |
| Beginning Balance | \$ 60,329 | \$ 63,360 |
| Current Year Claims and Changes in Estimates | 152,259 | 135,479 |
| Claim Payments | <u>(148,377)</u> | <u>(138,510)</u> |
| Ending Balance | <u>\$ 64,211</u> | <u>\$ 60,329</u> |

14. Joint Venture

The Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 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, 2005 totaling approximately \$18,218. 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 and paid out for fiscal year 2005.

In conjunction 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, 2005, the University received approximately \$21,678 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 Changes

The amounts presented in the accompanying financial statements for the College Savings Plan are for the fiscal year ended December 31, 2004. In the statements for prior year, the amounts presented were for the fiscal year ended June 30, 2004. In order to reflect a full year's activity, the Beginning Net Assets of the Private Purpose Trust, Fiduciary Funds, were decreased by \$172,460 to reflect the audited financial statements of the College Savings Plan as of December 31, 2003.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures, An Amendment of GASB Statement No. 3*, was implemented during fiscal year 2005. As a result, the disclosures related to deposit and investment risk were changed. The changes are reflected in Note 2.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2005

(Dollars in Thousands)

| | GENERAL FUND | | | |
|--|--------------------|-------------------|-------------------|-------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES: | | | | |
| Taxes | \$ 2,685,431 | \$ 2,898,952 | \$ 2,947,146 | \$ 48,194 |
| Federal Grants and Contracts | 49 | 49 | 49 | - |
| Sales and Charges | 21,380 | 21,380 | 21,380 | - |
| Other | 21,149 | 21,149 | 21,149 | - |
| TOTAL REVENUES | <u>2,728,009</u> | <u>2,941,530</u> | <u>2,989,724</u> | <u>48,194</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 124,386 | 124,735 | 115,607 | 9,128 |
| Conservation of Natural Resources | 38,318 | 37,868 | 28,636 | 9,232 |
| Culture – Recreation | 5,397 | 5,375 | 5,180 | 195 |
| Economic Development and Assistance | 5,333 | 5,259 | 5,168 | 91 |
| Education | 1,350,950 | 1,348,771 | 1,327,580 | 21,191 |
| Health and Social Services | 1,008,046 | 999,253 | 946,751 | 52,502 |
| Public Safety | 208,735 | 195,846 | 179,253 | 16,593 |
| Regulation of Business and Professions | 3,795 | 3,714 | 3,310 | 404 |
| Transportation | 103 | 97 | 93 | 4 |
| Intergovernmental | 85,699 | 87,262 | 87,031 | 231 |
| TOTAL EXPENDITURES | <u>2,830,762</u> | <u>2,808,180</u> | <u>2,698,609</u> | <u>109,571</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(102,753)</u> | <u>133,350</u> | <u>291,115</u> | <u>157,765</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 190,409 | 190,409 | 190,409 | - |
| Transfers Out | (163,750) | (163,750) | (163,750) | - |
| Other | 137 | 137 | 137 | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>26,796</u> | <u>26,796</u> | <u>26,796</u> | <u>-</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(75,957)</u> | <u>160,146</u> | <u>317,911</u> | <u>157,765</u> |
| FUND BALANCES, JULY 1 | <u>261,026</u> | <u>261,026</u> | <u>261,026</u> | <u>-</u> |
| FUND BALANCES, JUNE 30 | <u>\$ 185,069</u> | <u>\$ 421,172</u> | <u>\$ 578,937</u> | <u>\$ 157,765</u> |

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2005, follows (dollars in thousands):

| | |
|--|-------------------|
| Actual Fund Balances, budgetary basis, June 30, 2005 | |
| General | \$ 401,769 |
| Cash Reserve | <u>177,168</u> |
| Budgetary fund balances | 578,937 |
| DIFFERENCES DUE TO BASIS OF ACCOUNTING: | |
| Record taxes receivable | 308,186 |
| Record tax refund liability | (243,589) |
| Record State contributions due pension funds | (17,796) |
| Record claims payable | (230,332) |
| Record other net accrued receivables and liabilities | <u>13,897</u> |
| GAAP fund balance, June 30, 2005 | <u>\$ 409,303</u> |

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2005

| (Dollars in Thousands) | CASH FUNDS | | | |
|---|-------------------|-------------------|-------------------|----------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES: | | | | |
| Taxes | \$ 92,790 | \$ 92,790 | \$ 92,790 | \$ - |
| Federal Grants and Contracts | 342,002 | 342,002 | 342,002 | - |
| Sales and Charges | 351,937 | 351,937 | 351,937 | - |
| Other | 211,498 | 211,498 | 211,498 | - |
| TOTAL REVENUES | 998,227 | 998,227 | 998,227 | - |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 68,100 | 69,400 | 44,880 | 24,520 |
| Conservation of Natural Resources | 80,685 | 81,959 | 40,643 | 41,316 |
| Culture – Recreation | 26,856 | 26,866 | 18,871 | 7,995 |
| Economic Development and Assistance | 36,985 | 36,985 | 13,302 | 23,683 |
| Education | 354,987 | 374,015 | 276,733 | 97,282 |
| Health and Social Services | 179,084 | 179,009 | 114,649 | 64,360 |
| Public Safety | 40,098 | 40,780 | 24,505 | 16,275 |
| Regulation of Business and Professions | 175,598 | 175,898 | 130,675 | 45,223 |
| Transportation | 672,179 | 704,379 | 645,260 | 59,119 |
| Intergovernmental | 6,875 | 7,872 | 6,892 | 980 |
| Capital Projects | 44,279 | 44,279 | 15,814 | 28,465 |
| TOTAL EXPENDITURES | 1,685,726 | 1,741,442 | 1,332,224 | 409,218 |
| Excess of Revenues Over (Under) Expenditures | (687,499) | (743,215) | (333,997) | 409,218 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 828,044 | 828,044 | 828,044 | - |
| Transfers Out | (455,399) | (455,399) | (455,399) | - |
| Other | 2,286 | 2,286 | 2,286 | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 374,931 | 374,931 | 374,931 | - |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (312,568) | (368,284) | 40,934 | 409,218 |
| FUND BALANCES, JULY 1 | 592,722 | 592,722 | 592,722 | - |
| FUND BALANCES, JUNE 30 | \$ 280,154 | \$ 224,438 | \$ 633,656 | \$ 409,218 |

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2005, follows (dollars in thousands):

| | |
|---|-------------------|
| Actual Fund Balances, budgetary basis, June 30, 2005 | |
| Cash | \$ 633,656 |
| Construction | 1,648 |
| Federal | 51,782 |
| Revolving | 168,842 |
| Budgetary fund balances | 855,928 |
| DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS: | 90,578 |
| GAAP fund balance, June 30, 2005 | \$ 946,506 |
| Actual Fund Balances of Major Funds, June 30, 2005 | |
| Highway | \$ 141,061 |
| Federal | 20,319 |
| Health and Social Services | 393,283 |
| Permanent School | 391,843 |
| GAAP fund balance, June 30, 2005 | \$ 946,506 |

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2005

(Dollars in Thousands)

| | CONSTRUCTION FUNDS | | | |
|--|----------------------------|-------------------------|-----------------|---------------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Federal Grants and Contracts | - | - | - | - |
| Sales and Charges | - | - | - | - |
| Other | 51 | 51 | 51 | - |
| TOTAL REVENUES | <u>51</u> | <u>51</u> | <u>51</u> | <u>-</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Conservation of Natural Resources | 19 | 19 | - | 19 |
| Culture – Recreation | - | - | - | - |
| Economic Development and Assistance | - | - | - | - |
| Education | 8,851 | 8,851 | 8,025 | 826 |
| Health and Social Services | - | - | - | - |
| Public Safety | - | - | - | - |
| Regulation of Business and Professions | - | - | - | - |
| Transportation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Capital Projects | 21,942 | 21,884 | 15,100 | 6,784 |
| TOTAL EXPENDITURES | <u>30,812</u> | <u>30,754</u> | <u>23,125</u> | <u>7,629</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(30,761)</u> | <u>(30,703)</u> | <u>(23,074)</u> | <u>7,629</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 23,129 | 23,129 | 23,129 | - |
| Transfers Out | - | - | - | - |
| Other | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>23,129</u> | <u>23,129</u> | <u>23,129</u> | <u>-</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(7,632)</u> | <u>(7,574)</u> | <u>55</u> | <u>7,629</u> |
| FUND BALANCES, JULY 1 | <u>1,593</u> | <u>1,593</u> | <u>1,593</u> | <u>-</u> |
| FUND BALANCES, JUNE 30 | <u>\$ (6,039)</u> | <u>\$ (5,981)</u> | <u>\$ 1,648</u> | <u>\$ 7,629</u> |

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2005

(Dollars in Thousands)

| | FEDERAL FUNDS | | | |
|--|----------------------------|-------------------------|------------------|---------------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Federal Grants and Contracts | 2,048,032 | 2,048,032 | 2,048,032 | - |
| Sales and Charges | 12,753 | 12,753 | 12,753 | - |
| Other | 14,480 | 14,480 | 14,480 | - |
| TOTAL REVENUES | <u>2,075,265</u> | <u>2,075,265</u> | <u>2,075,265</u> | <u>-</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 7,901 | 8,466 | 3,662 | 4,804 |
| Conservation of Natural Resources | 62,870 | 69,799 | 47,981 | 21,818 |
| Culture – Recreation | 3,517 | 3,517 | 1,830 | 1,687 |
| Economic Development and Assistance | 97,622 | 97,990 | 63,342 | 34,648 |
| Education | 543,046 | 622,740 | 543,171 | 79,569 |
| Health and Social Services | 1,402,407 | 1,536,086 | 1,333,151 | 202,935 |
| Public Safety | 95,648 | 120,320 | 81,974 | 38,346 |
| Regulation of Business and Professions | 1,338 | 2,479 | 2,007 | 472 |
| Transportation | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Capital Projects | 14,065 | 13,946 | 2,006 | 11,940 |
| TOTAL EXPENDITURES | <u>2,228,414</u> | <u>2,475,343</u> | <u>2,079,124</u> | <u>396,219</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(153,149)</u> | <u>(400,078)</u> | <u>(3,859)</u> | <u>396,219</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 6,619 | 6,619 | 6,619 | - |
| Transfers Out | (7,178) | (7,178) | (7,178) | - |
| Other | (316) | (316) | (316) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(875)</u> | <u>(875)</u> | <u>(875)</u> | <u>-</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(154,024)</u> | <u>(400,953)</u> | <u>(4,734)</u> | <u>396,219</u> |
| FUND BALANCES, JULY 1 | <u>56,516</u> | <u>56,516</u> | <u>56,516</u> | <u>-</u> |
| FUND BALANCES, JUNE 30 | <u>\$ (97,508)</u> | <u>\$ (344,437)</u> | <u>\$ 51,782</u> | <u>\$ 396,219</u> |

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2005

| | REVOLVING FUNDS | | | |
|---|------------------|------------------|-------------------|----------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| (Dollars in Thousands) | | | | |
| REVENUES: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Federal Grants and Contracts | 3,775 | 3,775 | 3,775 | - |
| Sales and Charges | 396,498 | 396,498 | 396,498 | - |
| Other | 124,012 | 124,012 | 124,012 | - |
| TOTAL REVENUES | 524,285 | 524,285 | 524,285 | - |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 217,960 | 217,660 | 143,528 | 74,132 |
| Conservation of Natural Resources | - | - | - | - |
| Culture – Recreation | - | - | - | - |
| Economic Development and Assistance | 573 | 573 | 370 | 203 |
| Education | 379,215 | 410,796 | 360,735 | 50,061 |
| Health and Social Services | - | - | - | - |
| Public Safety | 21,003 | 21,003 | 13,327 | 7,676 |
| Regulation of Business and Professions | - | - | - | - |
| Transportation | 1,000 | 1,000 | - | 1,000 |
| Intergovernmental | - | - | - | - |
| Capital Projects | - | - | - | - |
| TOTAL EXPENDITURES | 619,751 | 651,032 | 517,960 | 133,072 |
| Excess of Revenues Over (Under) Expenditures | (95,466) | (126,747) | 6,325 | 133,072 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 36,472 | 36,472 | 36,472 | - |
| Transfers Out | (33,893) | (33,893) | (33,893) | - |
| Other | 560 | 560 | 560 | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 3,139 | 3,139 | 3,139 | - |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (92,327) | (123,608) | 9,464 | 133,072 |
| FUND BALANCES, JULY 1 | 159,378 | 159,378 | 159,378 | - |
| FUND BALANCES, JUNE 30 | \$ 67,051 | \$ 35,770 | \$ 168,842 | \$ 133,072 |

See independent auditors' report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2005

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 2005, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2005, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

State of Nebraska

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

For the Year Ended June 30, 2005

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

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

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

Measurement Scale

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

Established Condition Level

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

Assessed Condition

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

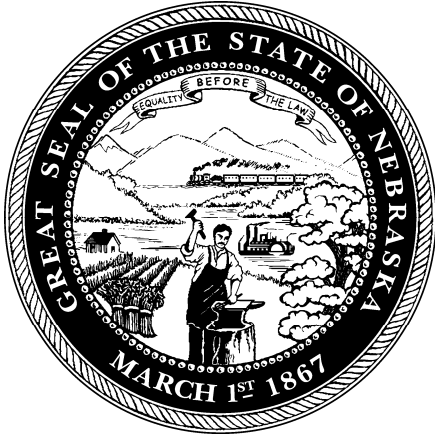
| <u>Calendar Year</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Very Good | 39% | 40% | 38% | 48% | 50% | 51% |
| Good | 46% | 44% | 43% | 36% | 35% | 35% |
| Fair | 12% | 14% | 16% | 13% | 13% | 12% |
| Poor | 3% | 2% | 3% | 3% | 2% | 2% |
| Overall System Rating | 83.0% | 83.0% | 83.0% | 84.0% | 84.0% | 83.6% |

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 years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, the actual cost of system preservation is 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 83 actual).

| <u>Fiscal Year</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Estimated | \$ 125 | \$ 123 | \$ 179 | \$ 174 | \$ 169 |
| Actual | | 221 | 200 | 199 | 194 |
| Difference | | 98 | 21 | 25 | 25 |

See independent auditors’ report



SINGLE AUDIT SECTION

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|---|------------------------|--------------------------|
| Agriculture, U.S. Department of | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | Agriculture, Department of | 10.025 | \$ 933,129 |
| Plant and Animal Disease, Pest Control, and Animal Care | Game and Parks Commission | 10.025 | 243,516 |
| Wetlands Reserve Program | Game and Parks Commission | 10.072 | 95,639 |
| State Mediation Grants | Agriculture, Department of | 10.435 | 150,009 |
| RHS Rural Community Development | Economic Development, Department of | 10.446 | 168,429 |
| Food Donation | Health and Human Services System | 10.550 | * ^ 7,106,503 |
| Food Stamp Cluster: | | | |
| Food Stamps | Health and Human Services System | 10.551 | ^ 117,893,156 |
| State Administrative Matching Grants for Food Stamp Program | Health and Human Services System | 10.561 | ^ 14,822,456 |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | Education, Department of | 10.553 | * 7,868,250 |
| National School Lunch Program | Education, Department of | 10.555 | * 37,673,024 |
| Special Milk Program for Children | Education, Department of | 10.556 | * 95,117 |
| Summer Food Service Program for Children | Education, Department of | 10.559 | * 810,558 |
| Special Supplemental Nutrition Program for Women, Infants, and Children | Health and Human Services System | 10.557 | * 22,953,020 |
| Child and Adult Care Food Program | Education, Department of | 10.558 | * 23,329,216 |
| State Administrative Expenses for Child Nutrition | Education, Department of | 10.560 | 934,285 |
| State Administrative Expenses for Child Nutrition | Health and Human Services System | 10.560 | 133,722 |
| Commodity Supplemental Food Program | Health and Human Services System | 10.565 | ^ 3,861,709 |
| Emergency Food Assistance Cluster: | | | |
| Emergency Food Assistance Program (Administrative Costs) | Health and Human Services System | 10.568 | 264,555 |
| Emergency Food Assistance Program (Food Commodities) | Health and Human Services System | 10.569 | ^ 1,061,268 |
| Team Nutrition Grants | Education, Department of | 10.574 | 61,079 |
| Senior Farmers Market Nutrition Program | Agriculture, Department of | 10.576 | 270,000 |
| National Rural Development Partnership | Rural Development Commission | 43-3157-8-RDP03 | 48,625 |
| Nebraska Rural Rehabilitation Program | Agriculture, Department of | N/A | 192,766 |
| Food Safety Task Force on Meat & Poultry Processing | Agriculture, Department of | 18-C-14-2001 | 11,759 |
| Nebraska Plant Pest Homeland Security Project | Agriculture, Department of | 02-8456-0601-CA | 1,246 |
| Total U.S. Department of Agriculture | | | \$ 240,983,036 |
| Commerce, U.S. Department of | | | |
| Public Telecommunications Facilities Planning and Construction | Educational Telecommunications Commission | 11.550 | \$ 229,437 |
| Manufacturing Extension Partnership | Economic Development, Department of | 11.611 | 403,225 |
| Domestic Travel Program | Economic Development, Department of | 11.950 | 120,107 |
| Total U.S. Department of Commerce | | | \$ 752,769 |
| Corporation for National and Community Service | | | |
| State Commissions | Health and Human Services System | 94.003 | \$ 150,357 |
| Learn and Serve America - School and Community Based Programs | Education, Department of | 94.004 | 89,468 |
| AmeriCorps | Health and Human Services System | 94.006 | 766,150 |
| Planning and Program Development Grants | Health and Human Services System | 94.007 | 173,661 |
| Training and Technical Assistance | Health and Human Services System | 94.009 | 35,683 |
| Total Corporation for National and Community Service | | | \$ 1,215,319 |
| Defense, U.S. Department of | | | |
| Military Construction, National Guard | Military Department | 12.400 | * \$ 8,740,492 |
| National Guard Military Operations and Maintenance (O&M) Projects | Military Department | 12.401 | * 9,808,376 |
| National Guard Civilian Youth Opportunities | Military Department | 12.404 | 274,086 |
| Defense Environmental Restoration Program | Environmental Quality, Department of | NE-03-1 | 155,979 |
| US Army Corps of Engineers | Game and Parks Commission | N/A | 327,739 |
| Total U.S. Department of Defense | | | \$ 19,306,672 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|--|------------------------|--------------------------|
| Education, U.S. Department of | | | |
| Adult Education - State Grant Program | Education, Department of | 84.002 | \$ 2,536,815 |
| Title I Grants to Local Educational Agencies | Education, Department of | 84.010 | 28,884,144 |
| Migrant Education - State Grant Program | Education, Department of | 84.011 | 3,931,370 |
| Title I Program for Neglected and Delinquent Children | Education, Department of | 84.013 | 265,026 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | Education, Department of | 84.027 | 78,523,799 |
| Special Education - Preschool Grants | Education, Department of | 84.173 | 2,499,618 |
| Vocational Education - Basic Grants to States | Education, Department of | 84.048 | 7,703,221 |
| Leveraging Educational Assistance Partnerships | Postsecondary Education, Coordinating Commission for | 84.069 | 587,152 |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | Blind and Visually Impaired Commission | 84.126 | 2,730,508 |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | Education, Department of | 84.126 | 13,485,303 |
| Rehabilitation Services - Client Assistance Program | Education, Department of | 84.161 | 131,395 |
| Independent Living - State Grants | Blind and Visually Impaired Commission | 84.169 | 36,320 |
| Independent Living - State Grants | Education, Department of | 84.169 | 368,988 |
| Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind | Blind and Visually Impaired Commission | 84.177 | 223,351 |
| Special Education-Grants for Infants and Families with Disabilities | Education, Department of | 84.181 | 2,055,033 |
| Safe and Drug-Free Schools and Communities-National Programs | Education, Department of | 84.184 | 301,886 |
| Byrd Honors Scholarships | Education, Department of | 84.185 | 243,000 |
| Safe and Drug-Free Schools and Communities - State Grants | Education, Department of | 84.186 | 1,557,545 |
| Safe and Drug-Free Schools and Communities - State Grants | Health and Human Services System | 84.186 | 475,964 |
| Supported Employment Services for Individuals with Severe Disabilities | Blind and Visually Impaired Commission | 84.187 | 48,689 |
| Supported Employment Services for Individuals with Severe Disabilities | Education, Department of | 84.187 | 540,000 |
| Education for Homeless Children and Youth | Education, Department of | 84.196 | 174,234 |
| Star Schools | Education, Department of | 84.203 | 6 |
| Even Start - State Educational Agencies | Education, Department of | 84.213 | 935,876 |
| Fund for the Improvement of Education | Education, Department of | 84.215 | 107,136 |
| Assistive Technology | Education, Department of | 84.224 | 977,898 |
| Rehabilitation Services Demonstration and Training Programs | Education, Department of | 84.235 | 431,037 |
| Rehabilitation Services Demonstration and Training Programs | Blind and Visually Impaired Commission | 84.235 | 266,578 |
| Tech-Prep Education | Education, Department of | 84.243 | 755,384 |
| National Institute for Literacy | Education, Department of | 84.257 | 1,407 |
| Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training | Blind and Visually Impaired Commission | 84.265 | 46,453 |
| Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training | Education, Department of | 84.265 | 32,071 |
| Twenty-First Century Community Learning Centers | Education, Department of | 84.287 | 2,101,575 |
| State Grants for Innovative Programs | Education, Department of | 84.298 | 1,976,335 |
| Education Technology State Grants | Education, Department of | 84.318 | 3,184,542 |
| Special Education - State Personnel Development | Education, Department of | 84.323 | 649,607 |
| Special Education-Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities | Education, Department of | 84.326 | 120,509 |
| Advanced Placement Program | Education, Department of | 84.330 | 4,930 |
| Grants to States for Incarcerated Youth Offenders | Corrections, Department of | 84.331 | 153,692 |
| Comprehensive School Reform Demonstration | Education, Department of | 84.332 | 877,543 |
| Teacher Quality Enhancement Grants | Education, Department of | 84.336 | 51,769 |
| Class Size Reduction | Education, Department of | 84.340 | 549 |
| Vocational Education - Occupational and Employment Information State Grants | Education, Department of | 84.346 | 120,286 |
| Transition to Teaching | Education, Department of | 84.350 | 261,972 |
| School Renovation Grants | Education, Department of | 84.352 | 28,301 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|--|------------------------|--------------------------|
| Education, U.S. Department of, Continued: | | | |
| Reading First State Grants | Education, Department of | 84.357 | \$ 3,026,359 |
| Rural Education | Education, Department of | 84.358 | 140,881 |
| English Language Acquisition Grants | Education, Department of | 84.365 | 1,722,292 |
| Mathematics & Science Partnership | Education, Department of | 84.366 | 316,323 |
| Improving Teacher Quality State Grants | Education, Department of | 84.367 | 17,082,864 |
| Improving Teacher Quality State Grants | Postsecondary Education, Coordinating Commission for | 84.367 | 391,056 |
| Grants for State Assessments and Related Activities | Education, Department of | 84.369 | 3,568,985 |
| Total U.S. Department of Education | | | \$ 186,637,577 |
| Energy, U.S. Department of | | | |
| National Energy Information Center | Governor | 81.039 | \$ 6,000 |
| State Energy Program | Governor | 81.041 | 516,875 |
| Weatherization Assistance for Low-Income Persons | Governor | 81.042 | 2,505,047 |
| Regional Biomass Energy Programs | Governor | 81.079 | 87,982 |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical | Governor | 81.117 | 162,704 |
| State Energy Program Special Projects | Governor | 81.119 | 73,799 |
| Total U.S. Department of Energy | | | \$ 3,352,407 |
| Environmental Protection Agency, U.S. | | | |
| State Indoor Radon Grants | Health and Human Services System | 66.032 | \$ 54,943 |
| Surveys, Studies, Investigations, and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act | Environmental Quality, Department of | 66.424 | (2,279) |
| State Public Water System Supervision | Health and Human Services System | 66.432 | 1,425,435 |
| State Underground Water Source Protection | Environmental Quality, Department of | 66.433 | 48,788 |
| State Underground Water Source Protection | Oil and Gas Commission | 66.433 | 88,598 |
| Water Quality Management Planning | Environmental Quality, Department of | 66.454 | 76,781 |
| Capitalization Grants for Clean Water State Revolving Funds | Environmental Quality, Department of | 66.458 | * 8,477,178 |
| Nonpoint Source Implementation Grants | Environmental Quality, Department of | 66.460 | 3,640,743 |
| Regional Wetland Program Development Grants | Game and Parks Commission | 66.461 | 10,932 |
| Water Quality Cooperative Agreements | Environmental Quality, Department of | 66.463 | 77,172 |
| Capitalization Grants for Drinking Water State Revolving Fund | Environmental Quality, Department of | 66.468 | * 12,874,473 |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | Health and Human Services System | 66.471 | 39,954 |
| Water Protection Grants to the States | Health and Human Services System | 66.474 | 9,736 |
| Performance Partnership Grants | Environmental Quality, Department of | 66.605 | 3,690,198 |
| Surveys, Studies, Investigations, and Special Purpose Grants | Environmental Quality, Department of | 66.606 | 327,742 |
| Training and Fellowships for the Environmental Protection Agency | Environmental Quality, Department of | 66.607 | 42,062 |
| State Information Grants | Environmental Quality, Department of | 66.608 | 201,737 |
| State Information Grants | Health and Human Services System | 66.608 | 208 |
| Consolidated Pesticide Enforcement Cooperative Agreements | Agriculture, Department of | 66.700 | 733,684 |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | Health and Human Services System | 66.707 | 347,549 |
| Pollution Prevention Grants Program | Environmental Quality, Department of | 66.708 | 109,012 |
| Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements | Environmental Quality, Department of | 66.802 | 405,856 |
| Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements | Health and Human Services System | 66.802 | (8,292) |
| State and Tribal Underground Storage Tanks Program | Fire Marshal | 66.804 | 262,539 |
| Leaking Underground Storage Tank Trust Fund Program | Environmental Quality, Department of | 66.805 | 926,953 |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | Environmental Quality, Department of | 66.809 | 194,154 |
| State and Tribal Response Program Grants | Environmental Quality, Department of | 66.817 | 463,713 |
| Environmental Education Grants | Game and Parks Commission | 66.951 | 4,180 |
| Total U.S. Environmental Protection Agency | | | \$ 34,523,749 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|----------------------------------|------------------------|--------------------------|
| Equal Employment Opportunity Commission, U.S. | | | |
| Employment Discrimination-Title VII of the Civil Rights Act of 1964 | Equal Opportunity Commission | 30.001 | \$ 579,232 |
| Total U.S. Equal Employment Opportunity Commission | | | <u>\$ 579,232</u> |
| Federal Emergency Management Agency | | | |
| Public Assistance Grants | Military Department | 83.544 | \$ 445,449 * |
| Total Federal Emergency Management Agency | | | <u>\$ 445,449</u> |
| General Services Administration | | | |
| Donation of Federal Surplus Personal Property | Corrections, Department of | 39.003 | \$ 865,211 |
| Election Reform Payments | Secretary of State | 39.011 | 1,701,182 |
| Total General Services Administration | | | <u>\$ 2,566,393</u> |
| Health and Human Services, U.S. Department of | | | |
| Public Health and Social Services Emergency Fund | Health and Human Services System | 93.003 | \$ 3,054,103 |
| Special Programs for the Aging - Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation | Health and Human Services System | 93.041 | 27,755 |
| Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals | Health and Human Services System | 93.042 | 79,282 |
| Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services Aging Cluster: | Health and Human Services System | 93.043 | 122,469 |
| Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers | Health and Human Services System | 93.044 | 2,345,162 |
| Special Programs for the Aging - Title III, Part C-Nutrition Services | Health and Human Services System | 93.045 | 4,165,499 |
| Nutrition Services Incentive Program | Health and Human Services System | 93.053 | 1,296,195 |
| Special Programs for the Aging - Title IV - and Title II - Discretionary Projects | Health and Human Services System | 93.048 | 206,181 |
| Alzheimer's Disease Demonstration Grants to States | Health and Human Services System | 93.051 | 269,743 |
| National Family Caregiver Support | Health and Human Services System | 93.052 | 1,175,343 |
| Food and Drug Administration-Research | Agriculture, Department of | 93.103 | 2,002 |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | Health and Human Services System | 93.104 | 685,103 |
| Maternal and Child Health Federal Consolidated Programs | Health and Human Services System | 93.110 | 422,346 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | Health and Human Services System | 93.116 | 283,254 |
| Emergency Medical Services for Children | Health and Human Services System | 93.127 | 21,654 |
| Primary Care Services Resource Coordination and Development | Health and Human Services System | 93.130 | 156,440 |
| Injury Prevention and Control Research and State And Community Based Programs | Health and Human Services System | 93.136 | 504,790 |
| Projects for Assistance in Transition from Homelessness (PATH) | Health and Human Services System | 93.150 | 274,998 |
| Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | Health and Human Services System | 93.197 | 430,174 |
| Family Planning - Services | Health and Human Services System | 93.217 | 1,656,849 |
| Consolidated Knowledge Development and Application (KD&A) Program | Health and Human Services System | 93.230 | 1,600,719 |
| Traumatic Brain Injury-State Demonstration Grant Program | Education, Department of | 93.234 | 192,105 |
| Abstinence Education | Health and Human Services System | 93.235 | 218,997 |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | Health and Human Services System | 93.238 | 570 |
| State Rural Hospital Flexibility Program | Health and Human Services System | 93.241 | 572,670 |
| Substance Abuse and Mental Health Services_Projects of Regional and National Significance | Health and Human Services System | 93.243 | 99,479 |
| Universal Newborn Hearing Screening | Health and Human Services System | 93.251 | 75,516 |
| State Planning Grant--Health Care Access for the Uninsured | Health and Human Services System | 93.256 | 182,014 |
| Rural Access to Emergency Devices Grant | Health and Human Services System | 93.259 | 173,963 |
| Immunization Grants | Health and Human Services System | 93.268 | 8,838,031 ^ |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
 For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|----------------------------------|------------------------|--------------------------|
| Health and Human Services, U.S. Department of, Continued: | | | |
| Drug Abuse and Addiction Research Programs | Health and Human Services System | 93.279 | \$ 33,788 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | Health and Human Services System | 93.283 | 16,845,159 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | Labor, Department of | 93.283 | 166,985 |
| Small Rural Hospital Improvement Grant Program | Health and Human Services System | 93.301 | 638,880 |
| Promoting Safe and Stable Families | Health and Human Services System | 93.556 | 1,863,935 |
| Temporary Assistance for Needy Families | Health and Human Services System | 93.558 | * ^ 49,319,169 |
| Child Support Enforcement | Health and Human Services System | 93.563 | * ^ 29,278,262 |
| Child Support Enforcement Research | Health and Human Services System | 93.564 | 30,342 |
| Refugee and Entrant Assistance - State Administered Programs | Health and Human Services System | 93.566 | 759,118 |
| Low-Income Home Energy Assistance | Health and Human Services System | 93.568 | 14,081,016 |
| Low-Income Home Energy Assistance | Governor | 93.568 | 2,616,647 |
| Community Services Block Grant | Health and Human Services System | 93.569 | 4,399,601 |
| Community Services Block Grant Discretionary Awards-Community Food and Nutrition Programs | Health and Human Services System | 93.571 | 10,055 |
| Child Care and Development Fund Cluster: | | | |
| Child Care and Development Block Grant | Health and Human Services System | 93.575 | * ^ 20,175,715 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | Health and Human Services System | 93.596 | * ^ 17,838,162 |
| Refugee and Entrant Assistance-Discretionary Grants | Education, Department of | 93.576 | 206,608 |
| Refugee and Entrant Assistance-Discretionary Grants | Health and Human Services System | 93.576 | 23,263 |
| Refugee and Entrant Assistance- Targeted Assistance | Health and Human Services System | 93.584 | 364,495 |
| Empowerment Zones Program | Health and Human Services System | 93.585 | 493,955 |
| State Court Improvement Program | Supreme Court, Nebraska | 93.586 | 92,374 |
| Grants to States for Access and Visitation Programs | Health and Human Services System | 93.597 | 71,465 |
| Chafee Education and Training Vouchers Program (ETV) | Health and Human Services System | 93.599 | 370,098 |
| Head Start | Education, Department of | 93.600 | 119,793 |
| Voting Access for Individuals with Disabilities_Grants to States | Secretary of State | 93.617 | 34,786 |
| Basic Center Grant | Health and Human Services System | 93.623 | 120,000 |
| Developmental Disabilities Basic Support and Advocacy Grants | Health and Human Services System | 93.630 | 349,009 |
| Children's Justice Grants to States | Health and Human Services System | 93.643 | 137,510 |
| Child Welfare Services - State Grants | Health and Human Services System | 93.645 | 1,301,989 |
| Social Services Research and Demonstration | Health and Human Services System | 93.647 | 141,252 |
| Foster Care - Title IV-E | Health and Human Services System | 93.658 | * ^ 24,307,022 |
| Adoption Assistance | Health and Human Services System | 93.659 | * ^ 8,261,153 |
| Social Services Block Grant | Health and Human Services System | 93.667 | 11,162,020 |
| Child Abuse and Neglect State Grants | Health and Human Services System | 93.669 | 109,942 |
| Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes | Health and Human Services System | 93.671 | 916,401 |
| Chafee Foster Care Independence Program | Health and Human Services System | 93.674 | 2,236,683 |
| State Children's Insurance Program (CHIP) | Health and Human Services System | 93.767 | ^ 33,218,928 |
| Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities | Health and Human Services System | 93.768 | 347,784 |
| Medicare-Supplementary Medical Insurance | Health and Human Services System | 93.774 | ^ 1,106,064 |
| Medicaid Cluster: | | | |
| State Survey and Certification of Health Care Providers and Suppliers | Health and Human Services System | 93.777 | * ^ 3,568,012 |
| Medical Assistance Program (Medicaid) | Health and Human Services System | 93.778 | * ^ 882,226,866 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | Health and Human Services System | 93.779 | 928,219 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | Insurance, Department of | 93.779 | 325,773 |
| Seed Grants to States for Qualified High-Risk Pools | Insurance, Department of | 93.781 | 838,056 |
| Grants to States for Operation of Offices of Rural Health | Health and Human Services System | 93.913 | 159,118 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|-------------------------------------|--------------------------|--------------------------|
| Health and Human Services, U.S. Department of, Continued: | | | |
| HIV Care Formula Grants | Health and Human Services System | 93.917 | \$ 1,987,147 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs | Health and Human Services System | 93.919 | 20,897 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | Education, Department of | 93.938 | 141,900 |
| HIV Prevention Activities - Health Department Based | Health and Human Services System | 93.940 | 1,312,334 |
| Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance Assistance Programs for Chronic Disease Prevention and Control | Health and Human Services System | 93.944 | 184,619 |
| Trauma Care Systems Planning and Development | Health and Human Services System | 93.945 | 475,205 |
| Block Grants for Community Mental Health Services | Health and Human Services System | 93.952 | 44,262 |
| Block Grants for Prevention and Treatment of Substance Abuse | Health and Human Services System | 93.958 | 2,157,665 |
| Preventive Health Services-Sexually Transmitted Diseases Control Grants | Health and Human Services System | 93.959 | 7,986,333 |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | Health and Human Services System | 93.977 | 747,575 |
| Preventive Health and Health Services Block Grant | Health and Human Services System | 93.988 | 379,110 |
| Maternal and Child Health Services Block Grant to the States | Health and Human Services System | 93.991 | 2,148,084 |
| National Center for Health Statistics | Health and Human Services System | 93.994 | 4,437,811 |
| Tissue Residue Inspections | 200-2000-07227 | | 279,761 |
| Medicated Feed Inspection | Agriculture, Department of | 223-02-4007, 223-04-4007 | 1,103 |
| Food/Grain Warehouse Inspection | Agriculture, Department of | 223-03-4032, 223-04-4032 | 70,593 |
| FDA Partnership Agreement | Agriculture, Department of | 223-03-4079, 223-04-4079 | 28,042 |
| | Agriculture, Department of | N/A | 19,263 |
| Total U.S. Department of Health and Human Services | | | \$ 1,183,150,582 |
| Homeland Security, U.S. Department of | | | |
| State Domestic Preparedness Equipment Support Program | Military Department | 97.004 | \$ 13,265,931 |
| Boating Safety Financial Assistance | Game and Parks Commission | 97.012 | 266,048 |
| Community Assistance Program | Natural Resources, Department of | 97.023 | 60,377 |
| Flood Mitigation Assistance Program | Natural Resources, Department of | 97.029 | 1,409 |
| Crisis Counseling | Military Department | 97.032 | 72,497 |
| Crisis Counseling | Health and Human Services System | 97.032 | 296,265 |
| Public Assistance Grants | Military Department | 97.036 | 9,638,856 |
| Public Assistance Grants | State Patrol | 97.036 | 6,395 |
| Hazard Mitigation Grant | Military Department | 97.039 | 264,308 |
| National Dam Safety Program | Natural Resources, Department of | 97.041 | 90,127 |
| Emergency Management Performance Grants | Military Department | 97.042 | 1,499,744 |
| State Fire Training Systems Grants | Fire Marshal | 97.043 | 29,818 |
| Assistance to Firefighters Grant | Fire Marshal | 97.044 | 16,075 |
| Cooperating Technical Partners | Natural Resources, Department of | 97.045 | 134,278 |
| Pre-Disaster Mitigation Grant | Military Department | 97.047 | 31,980 |
| Emergency Operations Centers | Military Department | 97.052 | 82,800 |
| Citizen Corps | Health and Human Services System | 97.053 | 22,050 |
| Community Emergency Response Teams | Military Department | 97.054 | 68,682 |
| Map Modernization Management Support | Natural Resources, Department of | 97.070 | 64,930 |
| Total U.S. Department of Homeland Security | | | \$ 25,912,570 |
| Housing & Urban Development, U.S. Department of | | | |
| Community Development Block Grants/State's Program | Economic Development, Department of | 14.228 | \$ 15,656,947 |
| Emergency Shelter Grants Program | Health and Human Services System | 14.231 | 537,057 |
| HOME Investment Partnerships Program | Economic Development, Department of | 14.239 | 6,012,602 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
 For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|--|------------------------|--------------------------|
| Housing & Urban Development, U.S. Department of, Continued: | | | |
| Housing Opportunities for Persons with AIDS | Health and Human Services System | 14.241 | \$ 455,926 |
| Fair Housing Assistance Program-State and Local | Equal Opportunity Commission | 14.401 | 264,556 |
| Healthy Homes Demonstration Grants | Health and Human Services System | 14.901 | 793,155 |
| Manufactured Homes | Public Service Commission | DU100K900016698 | 9,200 |
| Total U.S. Department of Housing & Urban Development | | | \$ 23,729,443 |
| Interior, U.S. Department of | | | |
| Small Reclamation Projects | Game and Parks Commission | 15.503 | \$ 122,153 |
| Fish and Wildlife Cluster: | | | |
| Sport Fish Restoration | Game and Parks Commission | 15.605 | 5,041,810 |
| Wildlife Restoration | Game and Parks Commission | 15.611 | 6,237,846 |
| Fish and Wildlife Management Assistance | Game and Parks Commission | 15.608 | 29,248 |
| Cooperative Endangered Species Conservation Fund | Game and Parks Commission | 15.615 | 835,390 |
| Wildlife Conservation and Appreciation | Game and Parks Commission | 15.617 | 43,832 |
| Wildlife Conservation and Restoration | Game and Parks Commission | 15.625 | 133,735 |
| Landowner Incentive | Game and Parks Commission | 15.633 | 525,147 |
| State Wildlife Grants | Game and Parks Commission | 15.634 | 1,342,738 |
| U.S. Geological Survey_ Research and Data Collection | Game and Parks Commission | 15.808 | 68,341 |
| National Spatial Data Infrastructure Cooperative Agreements Program | Natural Resources, Department of | 15.809 | 4,655 |
| Historic Preservation Fund Grants-In-Aid | Historical Society | 15.904 | 644,822 |
| Outdoor Recreation-Acquisition, Development and Planning (Land and Water Conservation Fund Grants) | Game and Parks Commission | 15.916 | 742,631 |
| Save America's Treasures | Administrative Services, Department of | 31-02-ML-1280 | 143,876 |
| Reclamation States Emergency Drought Relief | Natural Resources, Department of | 03FC601826 | 446,965 |
| Total U.S. Department of Interior | | | \$ 16,363,189 |
| Justice, U.S. Department of | | | |
| State Domestic Preparedness Equipment Support Program | Military Department | 16.007 | * \$ 4,472,293 |
| Offender Reentry Program | Corrections, Department of | 16.202 | 486,582 |
| Juvenile Accountability Incentive Block Grants | Law Enforcement and Criminal Justice, Commission for | 16.523 | 1,862,783 |
| Technical Assistance and Training Initiative | Law Enforcement and Criminal Justice, Commission for | 16.526 | 175,334 |
| Juvenile Justice and Delinquency Prevention - Allocation to States | Law Enforcement and Criminal Justice, Commission for | 16.540 | 751,287 |
| Missing Children's Assistance | State Patrol | 16.543 | 239,333 |
| Title V Delinquency Prevention Program | Law Enforcement and Criminal Justice, Commission for | 16.548 | 24,997 |
| Part E State Challenge Activities | Law Enforcement and Criminal Justice, Commission for | 16.549 | 111,337 |
| State Justice Statistics Program for Statistical Analysis Centers | Law Enforcement and Criminal Justice, Commission for | 16.550 | 56,374 |
| National Criminal History Improvement Program | State Patrol | 16.554 | 436,532 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | State Patrol | 16.560 | 74,838 |
| Crime Laboratory Improvement_Combined Offender DNA Index System Backlog Reduction | State Patrol | 16.564 | 201,251 |
| Crime Victim Assistance | Law Enforcement and Criminal Justice, Commission for | 16.575 | 2,384,153 |
| Crime Victim Compensation | Law Enforcement and Criminal Justice, Commission for | 16.576 | 131,349 |
| Byrne Formula Grant Program | Law Enforcement and Criminal Justice, Commission for | 16.579 | 3,519,623 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | State Patrol | 16.580 | 438,586 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | Corrections, Department of | 16.586 | 1,978,650 |
| Violence Against Women Formula Grants | Law Enforcement and Criminal Justice, Commission for | 16.588 | 1,152,676 |
| Violence Against Women Formula Grants | State Patrol | 16.588 | 42,749 |
| Residential Substance Abuse Treatment for State Prisoners | Law Enforcement and Criminal Justice, Commission for | 16.593 | 322,291 |
| State Criminal Alien Assistance Program | Corrections, Department of | 16.606 | 315,258 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
 For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|--|------------------------|--------------------------|
| Justice, U.S. Department of, Continued: | | | |
| Bulletproof Vest Partnership Program | State Patrol | 16.607 | \$ 6,298 |
| State and Local Anti-Terrorism Training | State Patrol | 16.614 | 21,856 |
| Public Safety Partnership and Community Policing Grants | State Patrol | 16.710 | 116,717 |
| Enforcing Underage Drinking Laws Programs | Motor Vehicles, Department of | 16.727 | 560,971 |
| Gang Resistance Education and Training | State Patrol | 16.737 | 16,786 |
| CJIS Project Manager | Law Enforcement and Criminal Justice, Commission for | 01-MU-CX-38 | 22,844 |
| CJIS Crime History Grants | Law Enforcement and Criminal Justice, Commission for | N/A | 48,294 |
| High Intensity Drug | State Patrol | IG-02-0104, I5PMWP634Z | 51,535 |
| Operating Task Force (Cash Crop) | State Patrol | 93-SP-36 | 4,448 |
| Misc Federal Funds | Law Enforcement and Criminal Justice, Commission for | N/A | 5,078 |
| Total U.S. Department of Justice | | | \$ 20,033,103 |
| Labor, U.S. Department of | | | |
| Labor Force Statistics | Labor, Department of | 17.002 | \$ 872,289 |
| Compensation and Working Conditions | Worker's Compensation Court | 17.005 | 31,808 |
| Labor Certification for Alien Workers | Labor, Department of | 17.203 | 97,630 |
| Employment Service Cluster: | | | |
| Employment Service | Labor, Department of | 17.207 | 6,503,592 |
| Disabled Veterans' Outreach Program | Labor, Department of | 17.801 | 272,975 |
| Local Veterans' Employment Representative Program | Labor, Department of | 17.804 | 554,822 |
| Unemployment Insurance - Federal | Labor, Department of | 17.225 | 2,429,902 |
| Unemployment Insurance - State | Labor, Department of | 17.225 | 110,469,705 |
| Unemployment Insurance - Admin | Labor, Department of | 17.225 | 17,798,624 |
| Senior Community Service Employment Program | Health and Human Services System | 17.235 | 663,859 |
| Trade Adjustment Assistance_Workers | Labor, Department of | 17.245 | 1,405,272 |
| One-Stop Career Center Initiative | Labor, Department of | 17.257 | 431,065 |
| Workforce Investment Act Cluster: | | | |
| WIA Adult Program | Labor, Department of | 17.258 | 3,349,164 |
| WIA Youth Activities | Labor, Department of | 17.259 | 2,775,293 |
| WIA Dislocated Workers | Labor, Department of | 17.260 | 1,972,407 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | Labor, Department of | 17.261 | 38,979 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | Economic Development, Department of | 17.261 | 720 |
| Work Incentives Grant | Labor, Department of | 17.266 | 351,206 |
| WIA Incentive Grants_Section 503 Grants to States | Labor, Department of | 17.267 | 605,546 |
| Consultation Agreements | Labor, Department of | 17.504 | 564,746 |
| Technical Assistance Program | Labor, Department of | 17.807 | 6,836 |
| Total U.S. Department of Labor | | | \$ 151,196,440 |
| National Archives and Records Administration | | | |
| National Historical Publications and Records Grants | Historical Society | 89.003 | \$ 5,371 |
| Total National Archives and Records Administration | | | \$ 5,371 |
| National Foundation of Arts and the Humanities | | | |
| Promotion of the Arts - Partnership Agreements | Arts Council | 45.025 | \$ 594,063 |
| Promotion of the Humanities_Professional Development | Historical Society | 45.163 | 95,551 |
| Conservation Project Support | Historical Society | 45.303 | 45,983 |
| State Library Program | Library Commission | 45.310 | 1,169,429 |
| National Leadership Grants | Library Commission | 45.312 | 7,426 |
| Total National Foundation of Arts and the Humanities | | | \$ 1,912,452 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2005

| <u>Federal Agency/Program Title</u> | <u>State Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|--|----------------------------|------------------------------|
| Social Security Administration | | | |
| Disability Insurance/SSI Cluster: | | | |
| Social Security - Disability Insurance | Education, Department of | 96.001 * | \$ 8,765,186 |
| Supplemental Security Income | Education, Department of | 96.006 * | 238,633 |
| Supplemental Security Income | Blind and Visually Impaired Commission | 96.006 * | 122,202 |
| Total Social Security Administration | | | <u>\$ 9,126,021</u> |
| Transportation, U.S. Department of | | | |
| Airport Improvement Program | Aeronautics, Department of | 20.106 * | \$ 15,501,967 |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | Game and Parks Commission | 20.205 | 476,353 |
| Highway Planning and Construction | Roads, Department of | 20.205 | 266,519,096 |
| Motor Carrier Safety | Motor Vehicles, Department of | 20.217 | 133,301 |
| National Motor Carrier Safety | Motor Vehicles, Department of | 20.218 | 64,030 |
| National Motor Carrier Safety | State Patrol | 20.218 | 2,205,595 |
| Federal Transit-Metropolitan Planning Grants | Roads, Department of | 20.505 | 187,841 |
| Formula Grants for Other Than Urbanized Areas | Roads, Department of | 20.509 | 2,555,046 |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | Roads, Department of | 20.513 | 1,110,900 |
| JobAccess: Reverse Commute | Roads, Department of | 20.516 | 49,758 |
| Highway Safety Cluster: | | | |
| State and Community Highway Safety | Motor Vehicles, Department of | 20.600 | 1,757,186 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | Motor Vehicles, Department of | 20.601 | 402,918 |
| Occupant Protection | Motor Vehicles, Department of | 20.602 | 234,781 |
| Federal Highway Safety Data Improvements Incentive Grants | Motor Vehicles, Department of | 20.603 | 148,185 |
| Federal Highway Safety Data Improvements Incentive Grants | Health and Human Services System | 20.603 | (5,384) |
| Safety Incentive Grants for Use of Seatbelts | Motor Vehicles, Department of | 20.604 | 70,505 |
| Safety Incentive Grants for Use of Seatbelts | Roads, Department of | 20.604 | 141,240 |
| Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons | Roads, Department of | 20.605 | 1,095,197 |
| Pipeline Safety | Fire Marshal | 20.700 | 248,755 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | Military Department | 20.703 | 137,760 |
| Highway Related Safety Grants | Roads, Department of | DTMH22-87-C-0-76 | 45,305 |
| Joint Federal-State Motor Fuel Tax Compliance Project | Revenue, Department of | TCP-0001003 | 9,986 |
| Statewide Occupant Protection-Special Selective Enforcement | Motor Vehicles, Department of | DTNH22-00-G-09075 | 147,339 |
| Innovative Funding Under Section 157 | Motor Vehicles, Department of | N/A | 70,661 |
| Total U.S. Department of Transportation | | | <u>\$ 293,308,321</u> |
| U.S. Forest Service | | | |
| USFS T&E and Sensitive Species | Game and Parks Commission | N/A | \$ 5,258 |
| Total U.S. Forest Service | | | <u>\$ 5,258</u> |
| United States Coast Guard | | | |
| Highway Training and Education | Law Enforcement and Criminal Justice, Commission for | 20.215 | \$ 51,679 |
| Federal Highway Safety Data Improvements Incentive Grants | Law Enforcement and Criminal Justice, Commission for | 20.603 | 111,945 |
| Total United States Coast Guard | | | <u>\$ 163,624</u> |
| Veterans Affairs, U.S. Department of | | | |
| Grants to States for Construction of State Home Facilities | Health and Human Services System | 64.005 | \$ 471,586 |
| Veterans State Domiciliary Care | Health and Human Services System | 64.014 | 489,756 |
| Veterans State Nursing Home Care | Health and Human Services System | 64.015 * | 9,606,584 |
| Total U.S. Department of Veterans Affairs | | | <u>\$ 10,567,926</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 2,225,836,903</u> |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|--|--------------------------|--------------------------|
| Administrative Services, Department of | | | |
| Save America's Treasures | Interior, U.S. Department of | 31-02-ML-1280 | \$ 143,876 |
| Total Department of Administrative Services | | | <u>\$ 143,876</u> |
| Aeronautics, Department of | | | |
| Airport Improvement Program | Transportation, U.S. Department of | 20.106 * | \$ 15,501,967 |
| Total Department of Aeronautics | | | <u>\$ 15,501,967</u> |
| Agriculture, Department of | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | Agriculture, U.S. Department of | 10.025 | \$ 933,129 |
| State Mediation Grants | Agriculture, U.S. Department of | 10.435 | 150,009 |
| Senior Farmers Market Nutrition Program | Agriculture, U.S. Department of | 10.576 | 270,000 |
| Consolidated Pesticide Enforcement Cooperative Agreements | Environmental Protection Agency, U.S. | 66.700 | 733,684 |
| Food and Drug Administration-Research | Health and Human Services, U.S. Department of | 93.103 | 2,002 |
| Tissue Residue Inspections | Health and Human Services, U.S. Department of | 223-02-4007, 223-04-4007 | 1,103 |
| Medicated Feed Inspection | Health and Human Services, U.S. Department of | 223-03-4032, 223-04-4032 | 70,593 |
| Food/Grain Warehouse Inspection | Health and Human Services, U.S. Department of | 223-03-4079, 223-04-4079 | 28,042 |
| Food Safety Task Force on Meat & Poultry Processing | Agriculture, U.S. Department of | 18-C-14-2001 | 11,759 |
| Nebraska Plant Pest Homeland Security Project | Agriculture, U.S. Department of | 02-8456-0601-CA | 1,246 |
| Nebraska Rural Rehabilitation Program | Agriculture, U.S. Department of | N/A | 192,766 |
| FDA Partnership Agreement | Health and Human Services, U.S. Department of | N/A | 19,263 |
| Total Department of Agriculture | | | <u>\$ 2,413,596</u> |
| Arts Council | | | |
| Promotion of the Arts - Partnership Agreements | National Foundation of Arts and the Humanities | 45.025 | \$ 594,063 |
| Total Arts Council | | | <u>\$ 594,063</u> |
| Blind and Visually Impaired Commission | | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | Education, U.S. Department of | 84.126 | \$ 2,730,508 |
| Independent Living - State Grants | Education, U.S. Department of | 84.169 | 36,320 |
| Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind | Education, U.S. Department of | 84.177 | 223,351 |
| Supported Employment Services for Individuals with Severe Disabilities | Education, U.S. Department of | 84.187 | 48,689 |
| Rehabilitation Services Demonstration and Training Programs | Education, U.S. Department of | 84.235 | 266,578 |
| Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training | Education, U.S. Department of | 84.265 | 46,453 |
| Disability Insurance/SSI Cluster: | | | |
| Supplemental Security Income | Social Security Administration | 96.006 * | 122,202 |
| Total Blind and Visually Impaired Commission | | | <u>\$ 3,474,101</u> |
| Corrections, Department of | | | |
| Offender Reentry Program | Justice, U.S. Department of | 16.202 | \$ 486,582 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | Justice, U.S. Department of | 16.586 | 1,978,650 |
| State Criminal Alien Assistance Program | Justice, U.S. Department of | 16.606 | 315,258 |
| Donation of Federal Surplus Personal Property | General Services Administration | 39.003 | 865,211 |
| Grants to States for Incarcerated Youth Offenders | Education, U.S. Department of | 84.331 | 153,692 |
| Total Department of Corrections | | | <u>\$ 3,799,393</u> |
| Economic Development, Department of | | | |
| RHS Rural Community Development | Agriculture, U.S. Department of | 10.446 | \$ 168,429 |
| Manufacturing Extension Partnership | Commerce, U.S. Department of | 11.611 | 403,225 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
 For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|---|------------------------|--------------------------|
| Economic Development, Department of, Continued: | | | |
| Domestic Travel Program | Commerce, U.S. Department of | 11.950 | \$ 120,107 |
| Community Development Block Grants/State's Program | Housing & Urban Development, U.S. Department of | 14.228 | 15,656,947 |
| HOME Investment Partnerships Program | Housing & Urban Development, U.S. Department of | 14.239 | 6,012,602 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | Labor, U.S. Department of | 17.261 | 720 |
| Total Department of Economic Development | | | \$ 22,362,030 |
| Education, Department of | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | Agriculture, U.S. Department of | 10.553 | * \$ 7,868,250 |
| National School Lunch Program | Agriculture, U.S. Department of | 10.555 | * 37,673,024 |
| Special Milk Program for Children | Agriculture, U.S. Department of | 10.556 | * 95,117 |
| Summer Food Service Program for Children | Agriculture, U.S. Department of | 10.559 | * 810,558 |
| Child and Adult Care Food Program | Agriculture, U.S. Department of | 10.558 | * 23,329,216 |
| State Administrative Expenses for Child Nutrition | Agriculture, U.S. Department of | 10.560 | 934,285 |
| Team Nutrition Grants | Agriculture, U.S. Department of | 10.574 | 61,079 |
| Adult Education - State Grant Program | Education, U.S. Department of | 84.002 | 2,536,815 |
| Title I Grants to Local Educational Agencies | Education, U.S. Department of | 84.010 | 28,884,144 |
| Migrant Education - State Grant Program | Education, U.S. Department of | 84.011 | 3,931,370 |
| Title I Program for Neglected and Delinquent Children | Education, U.S. Department of | 84.013 | 265,026 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | Education, U.S. Department of | 84.027 | 78,523,799 |
| Special Education - Preschool Grants | Education, U.S. Department of | 84.173 | 2,499,618 |
| Vocational Education - Basic Grants to States | Education, U.S. Department of | 84.048 | 7,703,221 |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | Education, U.S. Department of | 84.126 | 13,485,303 |
| Rehabilitation Services - Client Assistance Program | Education, U.S. Department of | 84.161 | 131,395 |
| Independent Living - State Grants | Education, U.S. Department of | 84.169 | 368,988 |
| Special Education-Grants for Infants and Families with Disabilities | Education, U.S. Department of | 84.181 | 2,055,033 |
| Safe and Drug-Free Schools and Communities-National Programs | Education, U.S. Department of | 84.184 | 301,886 |
| Byrd Honors Scholarships | Education, U.S. Department of | 84.185 | 243,000 |
| Safe and Drug-Free Schools and Communities - State Grants | Education, U.S. Department of | 84.186 | 1,557,545 |
| Supported Employment Services for Individuals with Severe Disabilities | Education, U.S. Department of | 84.187 | 540,000 |
| Education for Homeless Children and Youth | Education, U.S. Department of | 84.196 | 174,234 |
| Star Schools | Education, U.S. Department of | 84.203 | 6 |
| Even Start - State Educational Agencies | Education, U.S. Department of | 84.213 | 935,876 |
| Fund for the Improvement of Education | Education, U.S. Department of | 84.215 | 107,136 |
| Assistive Technology | Education, U.S. Department of | 84.224 | 977,898 |
| Rehabilitation Services Demonstration and Training Programs | Education, U.S. Department of | 84.235 | 431,037 |
| Tech-Prep Education | Education, U.S. Department of | 84.243 | 755,384 |
| National Institute for Literacy | Education, U.S. Department of | 84.257 | 1,407 |
| Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training | Education, U.S. Department of | 84.265 | 32,071 |
| Twenty-First Century Community Learning Centers | Education, U.S. Department of | 84.287 | 2,101,575 |
| State Grants for Innovative Programs | Education, U.S. Department of | 84.298 | 1,976,335 |
| Education Technology State Grants | Education, U.S. Department of | 84.318 | 3,184,542 |
| Special Education - State Personnel Development | Education, U.S. Department of | 84.323 | 649,607 |
| Special Education-Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities | Education, U.S. Department of | 84.326 | 120,509 |
| Advanced Placement Program | Education, U.S. Department of | 84.330 | 4,930 |
| Comprehensive School Reform Demonstration | Education, U.S. Department of | 84.332 | 877,543 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
 For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|---|------------------------|--------------------------|
| Education, Department of, Continued: | | | |
| Teacher Quality Enhancement Grants | Education, U.S. Department of | 84.336 | \$ 51,769 |
| Class Size Reduction | Education, U.S. Department of | 84.340 | 549 |
| Vocational Education - Occupational and Employment Information State Grants | Education, U.S. Department of | 84.346 | 120,286 |
| Transition to Teaching | Education, U.S. Department of | 84.350 | 261,972 |
| School Renovation Grants | Education, U.S. Department of | 84.352 | 28,301 |
| Reading First State Grants | Education, U.S. Department of | 84.357 | 3,026,359 |
| Rural Education | Education, U.S. Department of | 84.358 | 140,881 |
| English Language Acquisition Grants | Education, U.S. Department of | 84.365 | 1,722,292 |
| Mathematics & Science Partnership | Education, U.S. Department of | 84.366 | 316,323 |
| Improving Teacher Quality State Grants | Education, U.S. Department of | 84.367 | 17,082,864 |
| Grants for State Assessments and Related Activities | Education, U.S. Department of | 84.369 | 3,568,985 |
| Traumatic Brain Injury-State Demonstration Grant Program | Health and Human Services, U.S. Department of | 93.234 | 192,105 |
| Refugee and Entrant Assistance-Discretionary Grants | Health and Human Services, U.S. Department of | 93.576 | 206,608 |
| Head Start | Health and Human Services, U.S. Department of | 93.600 | 119,793 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other | Health and Human Services, U.S. Department of | 93.938 | 141,900 |
| Learn and Serve America - School and Community Based Programs | Corporation For National and Community Service | 94.004 | 89,468 |
| Disability Insurance/SSI Cluster: | | | |
| Social Security - Disability Insurance | Social Security Administration | 96.001 | * 8,765,186 |
| Supplemental Security Income | Social Security Administration | 96.006 | * 238,633 |
| Total Department of Education | | | \$ <u>262,203,036</u> |
| Educational Telecommunications Commission | | | |
| Public Telecommunications Facilities Planning and Construction | Commerce, U.S. Department of | 11.550 | \$ 229,437 |
| Total Educational Telecommunications Commission | | | \$ <u>229,437</u> |
| Environmental Quality, Department of | | | |
| Surveys, Studies, Investigations, and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act | Environmental Protection Agency, U.S. | 66.424 | \$ (2,279) |
| State Underground Water Source Protection | Environmental Protection Agency, U.S. | 66.433 | 48,788 |
| Water Quality Management Planning | Environmental Protection Agency, U.S. | 66.454 | 76,781 |
| Capitalization Grants for Clean Water State Revolving Funds | Environmental Protection Agency, U.S. | 66.458 | * 8,477,178 |
| Nonpoint Source Implementation Grants | Environmental Protection Agency, U.S. | 66.460 | 3,640,743 |
| Water Quality Cooperative Agreements | Environmental Protection Agency, U.S. | 66.463 | 77,172 |
| Capitalization Grants for Drinking Water State Revolving Fund | Environmental Protection Agency, U.S. | 66.468 | * 12,874,473 |
| Performance Partnership Grants | Environmental Protection Agency, U.S. | 66.605 | 3,690,198 |
| Surveys, Studies, Investigations, and Special Purpose Grants | Environmental Protection Agency, U.S. | 66.606 | 327,742 |
| Training and Fellowships for the Environmental Protection Agency | Environmental Protection Agency, U.S. | 66.607 | 42,062 |
| State Information Grants | Environmental Protection Agency, U.S. | 66.608 | 201,737 |
| Pollution Prevention Grants Program | Environmental Protection Agency, U.S. | 66.708 | 109,012 |
| Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements | Environmental Protection Agency, U.S. | 66.802 | 405,856 |
| Leaking Underground Storage Tank Trust Fund Program | Environmental Protection Agency, U.S. | 66.805 | 926,953 |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | Environmental Protection Agency, U.S. | 66.809 | 194,154 |
| State and Tribal Response Program Grants | Environmental Protection Agency, U.S. | 66.817 | 463,713 |
| Defense Environmental Restoration Program | Defense, U.S. Department of | NE-03-1 | 155,979 |
| Total Department of Environmental Quality | | | \$ <u>31,710,262</u> |
| Equal Opportunity Commission | | | |
| Fair Housing Assistance Program-State and Local | Housing & Urban Development, U.S. Department of | 14.401 | \$ 264,556 |
| Employment Discrimination-Title VII of the Civil Rights Act of 1964 | Equal Employment Opportunity Commission, U.S. | 30.001 | 579,232 |
| Total Equal Opportunity Commission | | | \$ <u>843,788</u> |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|---|----------------------------|------------------------------|
| Fire Marshal | | | |
| Pipeline Safety | Transportation, U.S. Department of | 20.700 | \$ 248,755 |
| State and Tribal Underground Storage Tanks Program | Environmental Protection Agency, U.S. | 66.804 | 262,539 |
| State Fire Training Systems Grants | Homeland Security, U.S. Department of | 97.043 | 29,818 |
| Assistance to Firefighters Grant | Homeland Security, U.S. Department of | 97.044 | 16,075 |
| Total Fire Marshal | | | \$ 557,187 |
| Game and Parks Commission | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | Agriculture, U. S. Department of | 10.025 | \$ 243,516 |
| Wetlands Reserve Program | Agriculture, U. S. Department of | 10.072 | 95,639 |
| Small Reclamation Projects | Interior, U.S. Department of | 15.503 | 122,153 |
| Fish and Wildlife Cluster: | | | |
| Sport Fish Restoration | Interior, U.S. Department of | 15.605 | 5,041,810 |
| Wildlife Restoration | Interior, U.S. Department of | 15.611 | 6,237,846 |
| Fish and Wildlife Management Assistance | Interior, U.S. Department of | 15.608 | 29,248 |
| Cooperative Endangered Species Conservation Fund | Interior, U.S. Department of | 15.615 | 835,390 |
| Wildlife Conservation and Appreciation | Interior, U.S. Department of | 15.617 | 43,832 |
| Wildlife Conservation and Restoration | Interior, U.S. Department of | 15.625 | 133,735 |
| Landowner Incentive | Interior, U.S. Department of | 15.633 | 525,147 |
| State Wildlife Grants | Interior, U.S. Department of | 15.634 | 1,342,738 |
| U.S. Geological Survey_ Research and Data Collection | Interior, U.S. Department of | 15.808 | 68,341 |
| Outdoor Recreation-Acquisition, Development and Planning (Land and Water Conservation Fund Grants) | Interior, U.S. Department of | 15.916 | 742,631 |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | Transportation, U.S. Department of | 20.205 | 476,353 |
| Regional Wetland Program Development Grants | Environmental Protection Agency, U.S. | 66.461 | 10,932 |
| Environmental Education Grants | Environmental Protection Agency, U.S. | 66.951 | 4,180 |
| Boating Safety Financial Assistance | Homeland Security, U.S. Department of | 97.012 | 266,048 |
| US Army Corps of Engineers | Defense, U.S. Department of | N/A | 327,739 |
| USFS T&E and Sensitive Species | U.S. Forest Service | N/A | 5,258 |
| Total Game and Parks Commission | | | \$ 16,552,536 |
| Governor | | | |
| National Energy Information Center | Energy, U.S. Department of | 81.039 | \$ 6,000 |
| State Energy Program | Energy, U.S. Department of | 81.041 | 516,875 |
| Weatherization Assistance for Low-Income Persons | Energy, U.S. Department of | 81.042 | 2,505,047 |
| Regional Biomass Energy Programs | Energy, U.S. Department of | 81.079 | 87,982 |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance | Energy, U.S. Department of | 81.117 | 162,704 |
| State Energy Program Special Projects | Energy, U.S. Department of | 81.119 | 73,799 |
| Low-Income Home Energy Assistance | Health and Human Services, U.S. Department of | 93.568 | 2,616,647 |
| Total Governor | | | \$ 5,969,054 |
| Health and Human Services System: | | | |
| Food Donation | Agriculture, U.S. Department of | 10.550 | * ^ \$ 7,106,503 |
| Food Stamp Cluster: | | | |
| Food Stamps | Agriculture, U.S. Department of | 10.551 | ^ 117,893,156 |
| State Administrative Matching Grants for Food Stamp Program | Agriculture, U.S. Department of | 10.561 | ^ 14,822,456 |
| Special Supplemental Nutrition Program for Women, Infants, and Children | Agriculture, U.S. Department of | 10.557 | * 22,953,020 |
| State Administrative Expenses for Child Nutrition | Agriculture, U.S. Department of | 10.560 | 133,722 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|---|----------------------------|------------------------------|
| Health and Human Services System, Continued: | | | |
| Commodity Supplemental Food Program | Agriculture, U.S. Department of | 10.565 | ^ \$ 3,861,709 |
| Emergency Food Assistance Cluster: | | | |
| Emergency Food Assistance Program (Administrative Costs) | Agriculture, U.S. Department of | 10.568 | 264,555 |
| Emergency Food Assistance Program (Food Commodities) | Agriculture, U.S. Department of | 10.569 | ^ 1,061,268 |
| Emergency Shelter Grants Program | Housing & Urban Development, U.S. Department of | 14.231 | 537,057 |
| Housing Opportunities for Persons with AIDS | Housing & Urban Development, U.S. Department of | 14.241 | 455,926 |
| Healthy Homes Demonstration Grants | Housing & Urban Development, U.S. Department of | 14.901 | 793,155 |
| Senior Community Service Employment Program | Labor, U.S. Department of | 17.235 | 663,859 |
| Highway Safety Cluster: | | | |
| Federal Highway Safety Data Improvements Incentive Grants | Transportation, U.S. Department of | 20.603 | (5,384) |
| Grants to States for Construction of State Home Facilities | Veterans Affairs, U.S. Department of | 64.005 | 471,586 |
| Veterans State Domiciliary Care | Veterans Affairs, U.S. Department of | 64.014 | ^ 489,756 |
| Veterans State Nursing Home Care | Veterans Affairs, U.S. Department of | 64.015 | * ^ 9,606,584 |
| State Indoor Radon Grants | Environmental Protection Agency, U.S. | 66.032 | 54,943 |
| State Public Water System Supervision | Environmental Protection Agency, U.S. | 66.432 | 1,425,435 |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | Environmental Protection Agency, U.S. | 66.471 | 39,954 |
| Water Protection Grants to the States | Environmental Protection Agency, U.S. | 66.474 | 9,736 |
| State Information Grants | Environmental Protection Agency, U.S. | 66.608 | 208 |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | Environmental Protection Agency, U.S. | 66.707 | 347,549 |
| Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements | Environmental Protection Agency, U.S. | 66.802 | (8,292) |
| Safe and Drug-Free Schools and Communities - State Grants | Education, U.S. Department of | 84.186 | 475,964 |
| Public Health and Social Services Emergency Fund | Health and Human Services, U.S. Department of | 93.003 | 3,054,103 |
| Special Programs for the Aging - Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation | Health and Human Services, U.S. Department of | 93.041 | 27,755 |
| Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals | Health and Human Services, U.S. Department of | 93.042 | 79,282 |
| Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services | Health and Human Services, U.S. Department of | 93.043 | 122,469 |
| Aging Cluster: | | | |
| Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers | Health and Human Services, U.S. Department of | 93.044 | 2,345,162 |
| Special Programs for the Aging - Title III, Part C-Nutrition Services | Health and Human Services, U.S. Department of | 93.045 | 4,165,499 |
| Nutrition Services Incentive Program | Health and Human Services, U.S. Department of | 93.053 | 1,296,195 |
| Special Programs for the Aging - Title IV - and Title II - Discretionary Projects | Health and Human Services, U.S. Department of | 93.048 | 206,181 |
| Alzheimer's Disease Demonstration Grants to States | Health and Human Services, U.S. Department of | 93.051 | 269,743 |
| National Family Caregiver Support | Health and Human Services, U.S. Department of | 93.052 | 1,175,343 |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | Health and Human Services, U.S. Department of | 93.104 | 685,103 |
| Maternal and Child Health Federal Consolidated Programs | Health and Human Services, U.S. Department of | 93.110 | 422,346 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | Health and Human Services, U.S. Department of | 93.116 | 283,254 |
| Emergency Medical Services for Children | Health and Human Services, U.S. Department of | 93.127 | 21,654 |
| Primary Care Services Resource Coordination and Development | Health and Human Services, U.S. Department of | 93.130 | 156,440 |
| Injury Prevention and Control Research and State And Community Based Programs | Health and Human Services, U.S. Department of | 93.136 | 504,790 |
| Projects for Assistance in Transition from Homelessness (PATH) | Health and Human Services, U.S. Department of | 93.150 | 274,998 |
| Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | Health and Human Services, U.S. Department of | 93.197 | 430,174 |
| Family Planning - Services | Health and Human Services, U.S. Department of | 93.217 | 1,656,849 |
| Consolidated Knowledge Development and Application (KD&A) Program | Health and Human Services, U.S. Department of | 93.230 | 1,600,719 |
| Abstinence Education | Health and Human Services, U.S. Department of | 93.235 | 218,997 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|---|----------------------------|------------------------------|
| Health and Human Services System, Continued: | | | |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | Health and Human Services, U.S. Department of | 93.238 | \$ 570 |
| State Rural Hospital Flexibility Program | Health and Human Services, U.S. Department of | 93.241 | 572,670 |
| Substance Abuse and Mental Health Services_Projects of Regional and National Significance | Health and Human Services, U.S. Department of | 93.243 | 99,479 |
| Universal Newborn Hearing Screening | Health and Human Services, U.S. Department of | 93.251 | 75,516 |
| State Planning Grant_Health Care Access for the Uninsured | Health and Human Services, U.S. Department of | 93.256 | 182,014 |
| Rural Access to Emergency Devices Grant | Health and Human Services, U.S. Department of | 93.259 | 173,963 |
| Immunization Grants | Health and Human Services, U.S. Department of | 93.268 | ^ 8,838,031 |
| Drug Abuse and Addiction Research Programs | Health and Human Services, U.S. Department of | 93.279 | 33,788 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | Health and Human Services, U.S. Department of | 93.283 | 16,845,159 |
| Small Rural Hospital Improvement Grant Program | Health and Human Services, U.S. Department of | 93.301 | 638,880 |
| Promoting Safe and Stable Families | Health and Human Services, U.S. Department of | 93.556 | 1,863,935 |
| Temporary Assistance for Needy Families | Health and Human Services, U.S. Department of | 93.558 | * ^ 49,319,169 |
| Child Support Enforcement | Health and Human Services, U.S. Department of | 93.563 | * ^ 29,278,262 |
| Child Support Enforcement Research | Health and Human Services, U.S. Department of | 93.564 | 30,342 |
| Refugee and Entrant Assistance - State Administered Programs | Health and Human Services, U.S. Department of | 93.566 | 759,118 |
| Low-Income Home Energy Assistance | Health and Human Services, U.S. Department of | 93.568 | 14,081,016 |
| Community Services Block Grant | Health and Human Services, U.S. Department of | 93.569 | 4,399,601 |
| Community Services Block Grant Discretionary Awards-Community Food and Nutrition Programs | Health and Human Services, U.S. Department of | 93.571 | 10,055 |
| Child Care and Development Fund Cluster: | | | |
| Child Care and Development Block Grant | Health and Human Services, U.S. Department of | 93.575 | * ^ 20,175,715 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | Health and Human Services, U.S. Department of | 93.596 | * ^ 17,838,162 |
| Refugee and Entrant Assistance-Discretionary Grants | Health and Human Services, U.S. Department of | 93.576 | 23,263 |
| Refugee and Entrant Assistance-Targeted Assistance | Health and Human Services, U.S. Department of | 93.584 | 364,495 |
| Empowerment Zones Program | Health and Human Services, U.S. Department of | 93.585 | 493,955 |
| Grants to States for Access and Visitation Programs | Health and Human Services, U.S. Department of | 93.597 | 71,465 |
| Chafee Education and Training Vouchers Program (ETV) | Health and Human Services, U.S. Department of | 93.599 | 370,098 |
| Basic Center Grant | Health and Human Services, U.S. Department of | 93.623 | 120,000 |
| Developmental Disabilities Basic Support and Advocacy Grants | Health and Human Services, U.S. Department of | 93.630 | 349,009 |
| Children's Justice Grants to States | Health and Human Services, U.S. Department of | 93.643 | 137,510 |
| Child Welfare Services - State Grants | Health and Human Services, U.S. Department of | 93.645 | 1,301,989 |
| Social Services Research and Demonstration | Health and Human Services, U.S. Department of | 93.647 | 141,252 |
| Foster Care - Title IV-E | Health and Human Services, U.S. Department of | 93.658 | * ^ 24,307,022 |
| Adoption Assistance | Health and Human Services, U.S. Department of | 93.659 | * ^ 8,261,153 |
| Social Services Block Grant | Health and Human Services, U.S. Department of | 93.667 | 11,162,020 |
| Child Abuse and Neglect State Grants | Health and Human Services, U.S. Department of | 93.669 | 109,942 |
| Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes | Health and Human Services, U.S. Department of | 93.671 | 916,401 |
| Chafee Foster Care Independence Program | Health and Human Services, U.S. Department of | 93.674 | 2,236,683 |
| State Children's Insurance Program (CHIP) | Health and Human Services, U.S. Department of | 93.767 | ^ 33,218,928 |
| Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities | Health and Human Services, U.S. Department of | 93.768 | 347,784 |
| Medicare-Supplementary Medical Insurance | Health and Human Services, U.S. Department of | 93.774 | ^ 1,106,064 |
| Medicaid Cluster: | | | |
| State Survey and Certification of Health Care Providers and Suppliers | Health and Human Services, U.S. Department of | 93.777 | * ^ 3,568,012 |
| Medical Assistance Program (Medicaid) | Health and Human Services, U.S. Department of | 93.778 | * ^ 882,226,866 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | Health and Human Services, U.S. Department of | 93.779 | 928,219 |
| Grants to States for Operation of Offices of Rural Health | Health and Human Services, U.S. Department of | 93.913 | 159,118 |
| HIV Care Formula Grants | Health and Human Services, U.S. Department of | 93.917 | 1,987,147 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs | Health and Human Services, U.S. Department of | 93.919 | 20,897 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
 For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|--|----------------------------|------------------------------|
| Health and Human Services System, Continued: | | | |
| HIV Prevention Activities - Health Department Based | Health and Human Services, U.S. Department of | 93.940 | \$ 1,312,334 |
| Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | Health and Human Services, U.S. Department of | 93.944 | 184,619 |
| Assistance Programs for Chronic Disease Prevention and Control | Health and Human Services, U.S. Department of | 93.945 | 475,205 |
| Trauma Care Systems Planning and Development | Health and Human Services, U.S. Department of | 93.952 | 44,262 |
| Block Grants for Community Mental Health Services | Health and Human Services, U.S. Department of | 93.958 | 2,157,665 |
| Block Grants for Prevention and Treatment of Substance Abuse | Health and Human Services, U.S. Department of | 93.959 | 7,986,333 * |
| Preventive Health Services-Sexually Transmitted Diseases Control Grants | Health and Human Services, U.S. Department of | 93.977 | 747,575 |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | Health and Human Services, U.S. Department of | 93.988 | 379,110 |
| Preventive Health and Health Services Block Grant | Health and Human Services, U.S. Department of | 93.991 | 2,148,084 |
| Maternal and Child Health Services Block Grant to the States | Health and Human Services, U.S. Department of | 93.994 | 4,437,811 * |
| State Commissions | Corporation For National and Community Service | 94.003 | 150,357 |
| AmeriCorps | Corporation For National and Community Service | 94.006 | 766,150 |
| Planning and Program Development Grants | Corporation For National and Community Service | 94.007 | 173,661 |
| Training and Technical Assistance | Corporation For National and Community Service | 94.009 | 35,683 |
| Crisis Counseling | Homeland Security, U.S. Department of | 97.032 | 296,265 |
| Citizen Corps | Homeland Security, U.S. Department of | 97.053 | 22,050 |
| National Center for Health Statistics | Health and Human Services, U.S. Department of | 200-2000-07227 | 279,761 |
| Total Health and Human Services System | | | \$ 1,363,193,143 |
| Historical Society | | | |
| Historic Preservation Fund Grants-In-Aid | Interior, U.S. Department of | 15.904 | \$ 644,822 |
| Promotion of the Humanities_Professional Development | National Foundation of Arts and the Humanities | 45.163 | 95,551 |
| Conservation Project Support | National Foundation of Arts and the Humanities | 45.303 | 45,983 |
| National Historical Publications and Records Grants | National Archives and Records Administration | 89.003 | 5,371 |
| Total Historical Society | | | \$ 791,727 |
| Insurance, Department of | | | |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | Health and Human Services, U.S. Department of | 93.779 | \$ 325,773 |
| Seed Grants to States for Qualified High-Risk Pools | Health and Human Services, U.S. Department of | 93.781 | 838,056 |
| Total Department of Insurance | | | \$ 1,163,829 |
| Labor, Department of | | | |
| Labor Force Statistics | Labor, U.S. Department of | 17.002 | \$ 872,289 |
| Labor Certification for Alien Workers | Labor, U.S. Department of | 17.203 | 97,630 |
| Employment Service Cluster: | | | |
| Employment Service | Labor, U.S. Department of | 17.207 | 6,503,592 |
| Disabled Veterans' Outreach Program | Labor, U.S. Department of | 17.801 | 272,975 |
| Local Veterans' Employment Representative Program | Labor, U.S. Department of | 17.804 | 554,822 |
| Unemployment Insurance - Federal | Labor, U.S. Department of | 17.225 | 2,429,902 |
| Unemployment Insurance - State | Labor, U.S. Department of | 17.225 | 110,469,705 |
| Unemployment Insurance - Admin | Labor, U.S. Department of | 17.225 | 17,798,624 |
| Trade Adjustment Assistance_Workers | Labor, U.S. Department of | 17.245 | 1,405,272 |
| One-Stop Career Center Initiative | Labor, U.S. Department of | 17.257 | 431,065 |
| Workforce Investment Act Cluster: | | | |
| WIA Adult Program | Labor, U.S. Department of | 17.258 | 3,349,164 * |
| WIA Youth Activities | Labor, U.S. Department of | 17.259 | 2,775,293 * |
| WIA Dislocated Workers | Labor, U.S. Department of | 17.260 | 1,972,407 * |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|--|------------------------|--------------------------|
| Labor, Department of, Continued: | | | |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | Labor, U.S. Department of | 17.261 | \$ 38,979 |
| Work Incentives Grant | Labor, U.S. Department of | 17.266 | 351,206 |
| WIA Incentive Grants_Section 503 Grants to States | Labor, U.S. Department of | 17.267 | 605,546 |
| Consultation Agreements | Labor, U.S. Department of | 17.504 | 564,746 |
| Technical Assistance Program | Labor, U.S. Department of | 17.807 | 6,836 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | Health and Human Services, U.S. Department of | 93.283 | 166,985 |
| Total Department of Labor | | | \$ 150,667,038 |
| Law Enforcement and Criminal Justice, Commission for | | | |
| Juvenile Accountability Incentive Block Grants | Justice, U.S. Department of | 16.523 | \$ 1,862,783 |
| Technical Assistance and Training Initiative | Justice, U.S. Department of | 16.526 | 175,334 |
| Juvenile Justice and Delinquency Prevention - Allocation to States | Justice, U.S. Department of | 16.540 | 751,287 |
| Title V Delinquency Prevention Program | Justice, U.S. Department of | 16.548 | 24,997 |
| Part E State Challenge Activities | Justice, U.S. Department of | 16.549 | 111,337 |
| State Justice Statistics Program for Statistical Analysis Centers | Justice, U.S. Department of | 16.550 | 56,374 |
| Crime Victim Assistance | Justice, U.S. Department of | 16.575 | 2,384,153 |
| Crime Victim Compensation | Justice, U.S. Department of | 16.576 | 131,349 |
| Byrne Formula Grant Program | Justice, U.S. Department of | 16.579 | 3,519,623 |
| Violence Against Women Formula Grants | Justice, U.S. Department of | 16.588 | 1,152,676 |
| Residential Substance Abuse Treatment for State Prisoners | Justice, U.S. Department of | 16.593 | 322,291 |
| Highway Training and Education | United States Coast Guard | 20.215 | 51,679 |
| Federal Highway Safety Data Improvements Incentive Grants | United States Coast Guard | 20.603 | 111,945 |
| CJIS Project Manager | Justice, U.S. Department of | 01-MU-CX-38 | 22,844 |
| CJIS Crime History Grants | Justice, U.S. Department of | N/A | 48,294 |
| Misc Federal Funds | Justice, U.S. Department of | N/A | 5,078 |
| Total Commission for Law Enforcement and Criminal Justice | | | \$ 10,732,044 |
| Library Commission | | | |
| State Library Program | National Foundation of Arts and the Humanities | 45.310 | \$ 1,169,429 |
| National Leadership Grants | National Foundation of Arts and the Humanities | 45.312 | 7,426 |
| Total Library Commission | | | \$ 1,176,855 |
| Military Department | | | |
| Military Construction, National Guard | Defense, U.S. Department of | 12.400 | * \$ 8,740,492 |
| National Guard Military Operations and Maintenance (O&M) Projects | Defense, U.S. Department of | 12.401 | * 9,808,376 |
| National Guard Civilian Youth Opportunities | Defense, U.S. Department of | 12.404 | 274,086 |
| State Domestic Preparedness Equipment Support Program | Justice, U.S. Department of | 16.007 | * 4,472,293 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | Transportation, U.S. Department of | 20.703 | 137,760 |
| Public Assistance Grants | Federal Emergency Management Agency | 83.544 | * 445,449 |
| State Domestic Preparedness Equipment Support Program | Homeland Security, U.S. Department of | 97.004 | * 13,265,931 |
| Crisis Counseling | Homeland Security, U.S. Department of | 97.032 | 72,497 |
| Public Assistance Grants | Homeland Security, U.S. Department of | 97.036 | * 9,638,856 |
| Hazard Mitigation Grant | Homeland Security, U.S. Department of | 97.039 | 264,308 |
| Emergency Management Performance Grants | Homeland Security, U.S. Department of | 97.042 | * 1,499,744 |
| Pre-Disaster Mitigation Grant | Homeland Security, U.S. Department of | 97.047 | 31,980 |
| Emergency Operations Centers | Homeland Security, U.S. Department of | 97.052 | 82,800 |
| Community Emergency Response Teams | Homeland Security, U.S. Department of | 97.054 | 68,682 |
| Total Military Department | | | \$ 48,803,254 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
 For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|--|---|------------------------|--------------------------|
| Motor Vehicles, Department of | | | |
| Enforcing Underage Drinking Laws Programs | Justice, U.S. Department of | 16.727 | \$ 560,971 |
| Motor Carrier Safety | Transportation, U.S. Department of | 20.217 | 133,301 |
| National Motor Carrier Safety | Transportation, U.S. Department of | 20.218 | 64,030 |
| Highway Safety Cluster: | | | |
| State and Community Highway Safety | Transportation, U.S. Department of | 20.600 | 1,757,186 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | Transportation, U.S. Department of | 20.601 | 402,918 |
| Occupant Protection | Transportation, U.S. Department of | 20.602 | 234,781 |
| Federal Highway Safety Data Improvements Incentive Grants | Transportation, U.S. Department of | 20.603 | 148,185 |
| Safety Incentive Grants for Use of Seatbelts | Transportation, U.S. Department of | 20.604 | 70,505 |
| Statewide Occupant Protection-Special Selective Enforcement | Transportation, U.S. Department of | DTNH22-00-G-09075 | 147,339 |
| Innovative Funding Under Section 157 | Transportation, U.S. Department of | N/A | 70,661 |
| Total Department of Motor Vehicles | | | \$ 3,589,877 |
| Natural Resources, Department of | | | |
| National Spatial Data Infrastructure Cooperative Agreements Program | Interior, U.S. Department of | 15.809 | \$ 4,655 |
| Community Assistance Program | Homeland Security, U.S. Department of | 97.023 | 60,377 |
| Flood Mitigation Assistance Program | Homeland Security, U.S. Department of | 97.029 | 1,409 |
| National Dam Safety Program | Homeland Security, U.S. Department of | 97.041 | 90,127 |
| Cooperating Technical Partners | Homeland Security, U.S. Department of | 97.045 | 134,278 |
| Map Modernization Management Support | Homeland Security, U.S. Department of | 97.070 | 64,930 |
| Reclamation States Emergency Drought Relief | Interior, U.S. Department of | 03FC601826 | 446,965 |
| Total Department of Natural Resources | | | \$ 802,741 |
| Oil and Gas Commission | | | |
| State Underground Water Source Protection | Environmental Protection Agency, U.S. | 66.433 | \$ 88,598 |
| Total Oil and Gas Commission | | | \$ 88,598 |
| Postsecondary Education, Coordinating Commission for | | | |
| Leveraging Educational Assistance Partnerships | Education, U.S. Department of | 84.069 | \$ 587,152 |
| Improving Teacher Quality State Grants | Education, U.S. Department of | 84.367 | 391,056 |
| Total Coordinating Commission for Postsecondary Education | | | \$ 978,208 |
| Public Service Commission | | | |
| Manufactured Homes | Housing & Urban Development, U.S. Department of | DU100K900016698 | \$ 9,200 |
| Total Public Service Commission | | | \$ 9,200 |
| Revenue, Department of | | | |
| Joint Federal-State Motor Fuel Tax Compliance Project | Transportation, U.S. Department of | TCP-0001003 | \$ 9,986 |
| Total Department of Revenue | | | \$ 9,986 |
| Roads, Department of | | | |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | Transportation, U.S. Department of | 20.205 | \$ 266,519,096 |
| Federal Transit-Metropolitan Planning Grants | Transportation, U.S. Department of | 20.505 | 187,841 |
| Formula Grants for Other Than Urbanized Areas | Transportation, U.S. Department of | 20.509 | 2,555,046 |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | Transportation, U.S. Department of | 20.513 | 1,110,900 |
| JobAccess: Reverse Commute | Transportation, U.S. Department of | 20.516 | 49,758 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2005

| <u>State Agency/Program Title</u> | <u>Federal Agency</u> | <u>CFDA or Grant #</u> | <u>2005 Expenditures</u> |
|---|---|------------------------|--------------------------|
| Roads, Department of, Continued: | | | |
| Highway Safety Cluster: | | | |
| Safety Incentive Grants for Use of Seatbelts | Transportation, U.S. Department of | 20.604 | \$ 141,240 |
| Safety Incentives to Prevent Operation of Motor Vehicle by Intoxicated Persons | Transportation, U.S. Department of | 20.605 | 1,095,197 |
| Highway Related Safety Grants | Transportation, U.S. Department of | DTMH22-87-C-0-76 | 45,305 |
| Total Department of Roads | | | \$ 1,281,742 |
| Rural Development Commission | | | |
| National Rural Development Partnership | Agriculture, U.S. Department of | 43-3157-8-RDP03 | \$ 48,625 |
| Total Rural Development Commission | | | \$ 48,625 |
| Secretary of State | | | |
| Election Reform Payments | General Services Administration | 39.011 | \$ 1,701,182 |
| Voting Access for Individuals with Disabilities_Grants to States | Health and Human Services, U.S. Department of | 93.617 | 34,786 |
| Total Secretary of State | | | \$ 1,735,968 |
| State Patrol | | | |
| Missing Children's Assistance | Justice, U.S. Department of | 16.543 | \$ 239,333 |
| National Criminal History Improvement Program | Justice, U.S. Department of | 16.554 | 436,532 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | Justice, U.S. Department of | 16.560 | 74,838 |
| Crime Laboratory Improvement_Combined Offender DNA Index System Backlog Reduction | Justice, U.S. Department of | 16.564 | 201,251 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | Justice, U.S. Department of | 16.580 | 438,586 |
| Violence Against Women Formula Grants | Justice, U.S. Department of | 16.588 | 42,749 |
| Bulletproof Vest Partnership Program | Justice, U.S. Department of | 16.607 | 6,298 |
| State and Local Anti-Terrorism Training | Justice, U.S. Department of | 16.614 | 21,856 |
| Public Safety Partnership and Community Policing Grants | Justice, U.S. Department of | 16.710 | 116,717 |
| Gang Resistance Education and Training | Justice, U.S. Department of | 16.737 | 16,786 |
| National Motor Carrier Safety | Transportation, U.S. Department of | 20.218 | 2,205,595 |
| Public Assistance Grants | Homeland Security, U.S. Department of | 97.036 | 6,395 |
| High Intensity Drug | Justice, U.S. Department of | IG-02-0104, I5PMWP634Z | 51,535 |
| Operating Task Force (Cash Crop) | Justice, U.S. Department of | 93-SP-36 | 4,448 |
| Total State Patrol | | | \$ 3,862,919 |
| Supreme Court, Nebraska | | | |
| State Court Improvement Program | Health and Human Services, U.S. Department of | 93.586 | \$ 92,374 |
| Total Nebraska Supreme Court | | | \$ 92,374 |
| Worker's Compensation Court | | | |
| Compensation and Working Conditions | Labor, U.S. Department of | 17.005 | \$ 31,808 |
| Total Worker's Compensation Court | | | \$ 31,808 |
| TOTAL FEDERAL AWARDS | | | \$ 2,225,836,903 |

^ - Amounts taken from financial status reports.

* - Represents major programs.

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

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(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 1(b) 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.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The State's reporting entity is defined in note 1(b) to the financial statements. The accompanying Schedule includes the federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2005.

Federal awards, if any, for the following discretely presented component units of the State are reported upon separately:

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.

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.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

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.

(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.

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.

Matching Costs—The Schedule does not include matching expenditures from general revenues of the State.

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.

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 represent the amount of assistance received from the federal government, not the amount expended by the State.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(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, 2005, the following inventories of nonmonetary assistance at the State level existed:

| <u>Assistance</u> | <u>Inventory Balance at June 30, 2005</u> |
|-------------------|---|
| Food Commodities | \$ 2,349,868 |
| Vaccines | 740,035 |

(4) Commodity Supplemental Food Program and Childhood Immunization Grants

As described in note 2, included in expenditures for the Commodity Supplemental Food program are \$3,096,166 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 \$6,960,355 of nonmonetary federal assistance in the form of vaccines.

(5) Surplus Property Program

The State Agency for Surplus Property distributes federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property program. Donated Federal Surplus Personal Property totaled \$5,768,079 valued at the historical cost as assigned by the federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule of Expenditures of Federal Awards is 15% of the historical cost, which approximates the fair market value of the property.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(6) 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, 2005 |
|--------|--|---|
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds | \$ 97,498,578 |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Fund | 57,245,236 |
| 84.176 | Paul Douglass Teacher Scholarship Loan Program | 64,629 |

New loans from these programs in the amount of \$19,601,362 are included as current year expenditures in the Schedule.

(7) 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 include only new loans made from any current years Oil Overcharge Settlement funds received by the State.

(8) 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.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

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

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

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

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

We have audited the basic financial statements of the State of Nebraska as of and for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005, which refers to the implementation of a new accounting standard. We did not audit the financial statements of the Nebraska State College System's foundation; the University of Nebraska; the College Savings Plan, a private purpose trust fund; and NETC Leasing Corporation, a nonmajor special revenue fund. The State College System's foundations and the University of Nebraska represent 96% and 95% of the assets and revenues, respectively, of the aggregate discretely presented component units' information. The College Savings Plan private purpose trust fund and the NETC Leasing Corporation nonmajor special revenue fund represent 10% and 21% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information, 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.

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 opinions on the basic financial statements and not to provide an opinion on the internal control over financial

reporting. However, we noted certain matters involving the 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 the 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 #05-65-01 and #05-65-02.

A material weakness is a reportable 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 caused by error or fraud 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 the internal control over financial reporting 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, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we have reported to the management of the respective State agencies in separate letters.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Lincoln, Nebraska
December 19, 2005


Assistant Deputy Auditor

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

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

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

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

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Compliance

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

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, 2005. 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.

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

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, 2005. 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.

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

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

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

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 with the major federal program listed below regarding 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.

| CFDA | Federal Program | Compliance Requirement | Finding # |
|-------------|--|-------------------------------|------------------|
| 93.994 | Maternal and Child Health Services Block Grant | Earmarking | 05-26-13 |

Qualifications

As identified by the finding number 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 the major federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major federal programs.

| CFDA # | Federal Program | Compliance Requirement | Finding # |
|-----------------------------------|--|---------------------------------|------------------|
| 10.553, 10.555, 10.556 and 10.559 | Nutrition Cluster | Eligibility | 05-13-01 |
| 17.258, 17.259, and 17.260 | Workforce Investment Act Cluster | Eligibility | 05-23-01 |
| 93.659 | Adoption Assistance | Reporting | 05-26-02 |
| 93.575/93.596 | Child Care Cluster | Allowability/Eligibility | 05-26-03 |
| 93.658 | Foster Care | Reporting | 05-26-06 |
| 93.563 | Child Support Enforcement | Subrecipient Monitoring | 05-26-07 |
| 93.959 | Block Grants for Prevention & Treatment of Substance Abuse | Subrecipient Monitoring | 05-26-08 |
| 10.550 | Food Distribution | Subrecipient Monitoring | 05-26-09 |
| 10.550 | Food Distribution | Reporting | 05-26-10 |
| 93.777 and 93.778 | Medicaid Cluster | Eligibility | 05-26-11 |
| 93.558 | Temporary Assistance for Needy Families | Allowability/Eligibility | 05-26-14 |
| 93.558 | Temporary Assistance for Needy Families | Allowability/Eligibility | 05-26-15 |
| 93.558 | Temporary Assistance for Needy Families | Eligibility | 05-26-17 |
| 93.558 | Temporary Assistance for Needy Families | Special Tests and Provisions | 05-26-20 |
| 12.401 | National Guard Military Operation and Maintenance | Allowable Costs/Cost Principles | 05-31-01 |
| 97.004/16.007 | State Domestic Preparedness Equipment Support | Allowable Costs/Cost Principles | 05-31-01 |
| 97.042 | Emergency Management Performance Grants | Allowable Costs/Cost Principles | 05-31-01 |
| 97.036/83.544 | Public Assistance | Subrecipient Monitoring | 05-31-04 |
| 97.036/83.544 | Public Assistance | Allowability/Cost Principles | 05-31-06 |

Adverse

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

| <u>CFDA #</u> | <u>Federal Program</u> | <u>Compliance Requirement</u> | <u>Finding #</u> |
|---------------|---|-------------------------------|------------------|
| 93.658 | Foster Care | Allowability | 05-26-05 |
| 97.042 | Emergency Management Performance Grants | Subrecipient Monitoring | 05-31-02 |
| 97.004/16.007 | State Domestic Preparedness Equipment Support | Subrecipient Monitoring | 05-31-03 |
| 97.036/83.544 | Public Assistance | Subrecipient Monitoring | 05-31-03 |
| 12.401 | National Guard Military Operation and Maintenance | Cash Management | 05-31-05 |
| 66.468 | Capitalization Grants for Drinking Water | Subrecipient Monitoring | 05-84-01 |
| 66.458 | Capitalization Grants for Clean Water | Subrecipient Monitoring | 05-84-01 |
| 66.468 | Capitalization Grants for Drinking Water | Reporting | 05-84-02 |

In our opinion, because of the effects of the noncompliance described in the preceding paragraph the State of Nebraska did not comply, in all material respects, with the requirements applicable to the programs identified in the preceding paragraph. Also, in our opinion, except for noncompliance described in the second 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 the State of Nebraska's compliance with the requirements described in the third 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, 2005.

Internal Control Over Compliance

The management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 the applicable requirements of laws,

regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #05-26-01, #05-26-03, #05-26-04, #05-26-05, #05-26-06, #05-26-08, #05-26-09, #05-26-10, #05-26-11, #05-26-12, #05-26-13, #05-26-14, #05-26-16, #05-26-17, #05-26-18, #05-26-19, #05-26-20, #05-26-21, #05-31-02, #05-31-03, #05-65-02, #05-84-01, and #05-84-02.

A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 #05-26-05, #05-26-13, #05-26-16, #05-26-20, #05-26-21, #05-31-02, #05-31-03, #05-84-01, and #05-84-02 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, 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. However, this report is a matter of public record and its distribution is not limited.

Lincoln, Nebraska
February 2, 2006

Pat Reding, CPA
Assistant Deputy Auditor

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

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 #05-65-01 and #05-65-02. These findings were not considered to be material weaknesses.
- c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.
- 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 #05-26-01, #05-26-03, #05-26-04, #05-26-05, #05-26-06, #05-26-08, #05-26-09, #05-26-10, #05-26-11, #05-26-12, #05-26-13, #05-26-14, #05-26-16, #05-26-17, #05-26-18, #05-26-19, #05-26-20, #05-26-21, #05-31-02, #05-31-03, #05-65-02, #05-84-01, and #05-84-02.

We consider items #05-26-05, #05-26-13, #05-26-16, #05-26-20, #05-26-21, #05-31-02, #05-31-03, #05-84-01, and #05-84-02 to be material weaknesses in internal control over the major programs.

- e) Type of report issued on compliance for major programs: Qualified, Disclaimer, and Adverse.
- 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 # | 10.550 | Food Distribution |
| CFDA # | 10.553, 10.555, 10.556, and 10.559 | Nutrition Cluster |
| CFDA # | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| CFDA # | 10.558 | Child and Adult Care Food Program |
| CFDA # | 12.400 | National Guard Construction |
| CFDA # | 12.401 | National Guard Military Operations and Maintenance Projects |

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

| | | |
|--------|-------------------------------|--|
| CFDA # | 17.258, 17.259, and 17.260 | WorkForce Investment Act Cluster |
| CFDA # | 20.106 | Airport Improvement Program |
| CFDA # | 64.015 | Veterans State Nursing Home Care |
| CFDA # | 66.458 | Capitalization Grants for Clean Water State Revolving Fund |
| CFDA # | 66.468 | Capitalization Grants for Drinking Water State Revolving Fund |
| CFDA # | 93.558 | Temporary Assistance for Needy Families |
| CFDA # | 93.563 | Child Support Enforcement |
| CFDA # | 93.575 and 93.596 | Child Care Cluster |
| CFDA # | 93.658 | Foster Care – Title IV-E |
| CFDA # | 93.659 | Adoption Assistance |
| CFDA # | 93.777 and 93.778 | Medicaid Cluster |
| CFDA # | 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |
| CFDA # | 93.994 | Maternal & Child Health Services Block Grant |
| CFDA # | 96.001 and 96.006 | Social Security Cluster |
| CFDA # | 97.004/16.007 | State Domestic Preparedness Equipment Support Program |
| CFDA # | 97.036/83.544 | Public Assistance Grants |
| CFDA # | 97.042 | Emergency Management Performance Grants |

h) Dollar threshold used to distinguish between Type A and Type B programs: \$6,677,510

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 ADMINISTRATIVE SERVICES (DAS)

Finding #05-65-01

Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), the system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

We recommend State Accounting continue their reconciliation process in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Agency Response: State Accounting fully recognizes the need to perform timely bank reconciliations. We have made tremendous strides in this area over the past two years and have hired an outside group to help us improve the system's capability to make our processes more efficient. We currently have reconciled the accounts allowing us to identify all reconciling items. We are confident future monthly reconciliations will also be fully reconciled. We will soon make adjustments to the appropriate State accounts for all errors that were discovered during the reconciliation process. Subsequently, the cash balances in NIS will be adjusted for the fixed unknown variance. The Governor and Legislature will be advised of the necessary adjustments.

We do not agree that NIS integrity needs improvement relative to cash accountability. Our current reconciliation process has proven that NIS accounts for all cash activity and has the ability to provide accurate data to allow us to complete the bank reconciliation process. The results of our reconciliation effort do not support any assertion that there are significant deficiencies in the operation of internal control over the financial reporting of the cash accounts that could adversely affect the State of Nebraska's ability to record, process, summarize and report financial data.

Finding #05-65-02

General Computer Controls

The APA contracted with an accounting firm (contractor) to perform an assessment of the general computer controls (GCC) of those applications and systems supporting financial reporting and disclosure for the State of Nebraska. The project fieldwork was performed between May 1, 2005, and June 30, 2005, and a report was issued dated September 27, 2005. The following is a summary of the scope of the procedures performed and their comments and recommendations:

Summary Scope of Procedures Performed

The following outlines the procedures performed by the contractor as part of the GCC assessment:

- General inquiries were made with each of the applicable departments to determine the applications that directly and materially support the financial reporting process. The State's general computer controls are decentralized throughout the various agencies and departments.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

- Procedures were performed to document and test the operating effectiveness of the GCCs. The procedures consisted of a combination of inquiry, corroboration, observation, and re-performance. Procedures were generally restricted to the following three primary areas of GCCs:
 - Information Security
 - Information System Operations
 - Application Development and Maintenance

The assessment related to the general computer controls for the following State of Nebraska departments:

- Health and Human Services System (HHSS)
- Department of Administrative Services (DAS)
- Nebraska Educational Telecommunications Commission (NETV)
- Legislative Council
- Education
- Department of Revenue
- State Colleges
- Retirement
- Department of Roads
- Public Service Commission

Summary of Comments and Recommendations

The contractor had comments and recommendations on the following departments and applications within those departments:

- Health and Human Services System (HHSS)
 - NFOCUS---supports an integrated service delivery platform to determine a family's eligibility for multiple programs and/or services from a single point. NFOCUS also supports the Child Welfare/Child protective services function.
 - HOME ENERGY---supports the federally funded Low Income Energy Assistance Program (LIEAP).
 - CHARTS---supports centralized collection and disbursements of Child Support Payments.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

- Department of Administrative Services (DAS)
 - PACE, CSB, and VIS---are internally developed mainframe applications running DB/2 databases that interact with the State NIS system primarily to track funds, perform various charge backs to agencies, and create vouchers for payments on behalf of various agencies. PACE tracks mainframe use by agencies and bills them back accordingly.
 - NIS-Nebraska Information System---is the main accounting and information system for the State of Nebraska.
 - Mainframe Operating System---is the mainframe computer operations for the State of Nebraska.
- Education
 - The Disability Determination System (DDS)---is an Access front end interface with a visual basic program behind it, using Access database. The DDS serves as a customer resource manager and an interface with NIS to determine payments to medical practitioners from information they provide to the social security administration pertaining to a pending disability claim.
 - QUEST---utilized by the Vocational Rehabilitation Department that tracks all expenses paid to assist physically and/or mentally disabled persons to locate jobs.
 - AID---is an internally developed Windows-based application. AID application grants payments to pre-selected students.
- Retirement---Nebraska Public Employees Retirement System (NPERS) is responsible for the administration of five retirement systems: Judges, State Patrol, State Employees, School Teachers, and County employees. NPERS utilizes the PIONEER system to track membership and enrollment functions, reconcile contributions, calculate interest and refunds, process benefits payment and annuities, and calculate cost of living increases.

Though many strong general computer controls were noted by the contractor in their report the following summarizes consistent themes where the State could make improvements in their general computer control environment:

A. Excessive Access to Application, Operating Systems, and Computer Hardware (Logical and Physical)

Excessive user access exists to several applications and operating systems within various State agencies. As a result, users maintain unauthorized and inappropriate access based on their job requirements. If proper segregation of duties and logical security techniques are not implemented, the potential exists for critical information resources to be unintentionally modified without proper and appropriate approval. Some examples of areas within the State to which excessive access has been granted include (but are not limited to):

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

- Several instances of application programmers with administrative access to the mainframe logical security tool (Remote Access Control Facility - RACF);
- Generic and unassigned 'administrator' accounts are used in several agencies to administer changes;
- ALTER access to production mainframe datasets is granted to application programmers; and,
- The SPECIAL attribute, allowing employees to update the RACF profiles, is granted to a wide range of conflicting job functions, including accountants, controllers, administrative assistants, schedulers, and programmers.

B. Documentation of Policies and Procedures

Formal policies and procedures over key information technology areas (i.e., security policies and procedures, change management policies and procedures, user access, network and firewall rules, etc.) do not exist for many of the Departments. Policies and procedures provide the formalized guidance for performance on specific job functions and responsibilities. Documentation helps to ensure that consistent procedures are performed across all systems within the State. Documented policies should contain general attributes which may include policy descriptions, scope, standards, enforcement, and definitions. A consistent, State-wide policy and procedure documentation standard would allow for consistent execution and communication between the various departments and personnel within those departments.

The contractor made specific comments and recommendations for each finding noted and those comments and recommendations were communicated to responsible parties at each agency. The APA communicated this summary of finding to the Director of IMservices of the Department of Administrative Services whose responsibility it is to coordinate a corrective action plan to address the comments and recommendations in the contractor's report.

We recommend DAS develop a plan to correct the findings noted in their IT general control environment and coordinate efforts to correct the IT general control findings noted in other agencies IT general control environments.

Management Response: See Management Response for Finding #05-65-02 in Part III of Schedule of Findings and Questioned Costs.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

Finding #05-13-01

Program: CFDA 10.553 School Breakfast Program (SBP); part of the Child Nutrition Cluster - Eligibility

Federal Grantor Agency: United States Department of Agriculture (USDA)

Criteria: Title 7 CFR 220.9(e), Severe Need Schools, states: "The State agency . . . shall determine whether a school is in severe need based on the following eligibility criteria . . . 40 percent or more of the lunches served to students at the school in the second preceding school year were served free or at a reduced price . . . State agencies shall maintain on file, and have available for review and audits, their eligibility criteria for determining the severe need of schools and the source of the data to be used in making individual determinations."

Condition: Total free and reduced lunches served in the second previous school year and total student lunches served in the second previous school year listed on the current year school site applications are not verified by the Agency's Nutrition Services staff. For one of four schools tested, the auditor verified the totals listed on the application were incorrect. Based on the correct data; the school did not meet the 40 percent eligibility requirement. In addition, we also noted two of four schools tested which the auditor could not verify individual site eligibility for those sites approved for Severe Need Breakfast.

Questioned Costs: \$114 known

Context: Nutrition Services does not have any policies or procedures in place to verify the data on the individual school site applications. Based on information currently being reported, it is not possible to verify eligibility for schools that have some sites qualifying for Severe Need and some sites that do not. Monthly claims submitted by schools are system-wide and do not contain any site specific data that could be used to verify Severe Need eligibility. We sampled 25 of 480 School Food Authorities (SFAs) participating in the Child Nutrition Cluster. Of the 25 sampled, 4 received Severe Need Breakfast reimbursements. Two SFAs had multiple sites receiving payments for Severe Need Breakfast that could not be verified. Of those, one SFA had 2 of 6 sites and the other had 24 of 59 sites receiving payments. The possible questioned costs for these two SFAs total \$87,288.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Cause: Nutrition Services does not verify information filled out by school sites to determine Severe Need eligibility for the School Breakfast Program. Nutrition Services relies on the schools to report accurate data as the schools have signed an agreement to report accurate data.

Effect: Increased risk of misappropriation of Federal funds

Recommendation: We recommend the Agency's Nutrition Services develop and implement policies and procedures to ensure all Severe Need Schools in the School Breakfast Program are eligible and documentation supporting this eligibility is maintained on file.

Management Response: There is no specific provision in the USDA-FNS School Breakfast Program regulations that requires the Agency to verify the total number of lunches served, and of free and reduced price lunches served, as reported by School Food Authorities prior to approving any school for Severe Need Breakfast reimbursement. School Food Authorities are required to comply with requirements, maintain documentation to support compliance, and make these records available for review when requested by the Agency.

However, the Agency is able to verify the lunches reported by single site districts by comparing the number of meals reported in the second previous year, to the number of lunches reported by the district when applying for severe need breakfast. The total lunches claimed as well as the total free and reduced lunches claimed in the second preceding year are automatically reported in the web-based application system. Approximately 70% of the participating school food authorities are single site districts.

Corrective Action Plan: For multiple site districts, Nutrition Services will review School Food Authority records to verify the accuracy of the figures reported for each site by the district when they apply for severe need reimbursement as part of the Coordinated Review Effort (CRE) administrative review process.

Contact: Connie Stefkovich, M.S., R.D.

Anticipated Completion Date: CRE is a year round activity. Single sight district applications will be verified during the approval process.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

DEPARTMENT OF LABOR

Finding #05-23-01

Program: CFDA 17.258, 17.259, and 17.260 Workforce Investment Act Cluster - Eligibility

Federal Grantor Agency: U.S. Department of Labor

Criteria: No participant may be in violation of Section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under the Act (29 USC 2939(h)). Title 50a, 453 Proc. No. 4771 1-105 states, "Persons born on or after January 1, 1963, shall present themselves for registration on the day they attain the 18th anniversary of their birth or on any day within the period of 60 days beginning 30 days before such date . . ."

Condition: 1 of 45 participants selected for testing was not eligible for benefits at the time benefits were provided.

Questioned Costs: \$200 known

Context: One individual born March 1987 should have been registered with the Military Selective Service no later than April 20, 2005. The client began intensive services as of June 23, 2005, and had not yet complied with the Selective Service Act. The participant did not sign the registration form until November 15, 2005. Benefits paid for the period that were not eligible totaled \$200. Testing was performed on 17 of 436 total participants in the Youth Program administered by Greater Nebraska. Total aid distributed by Greater Nebraska for the Youth Program for fiscal year 2005 was \$286,139.

Cause: Unknown

Effect: Increased risk that funds are expended for ineligible clients.

Recommendation: We recommend the Agency review its policies to ensure benefits are not provided to individuals before they become eligible.

Management Response: The Audit Report noted that 1 of 45 participants selected for testing was not eligible for benefits at the time benefits were provided. During the Audit Exit Interview, Dennis Lacquement, Service Contract Administrator, reviewed the facts of the event. It was determined that staff members involved in the event were aware of the policies and regulations relevant to Selective Service Registration and the eligibility for benefits. The staff members encountered difficulties when

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

registering the client with the Selective Service during the appropriate time period. The staff members determined that, since the client was in the process of registering, this would be sufficient to document compliance with the Selective Service requirement.

Corrective Action Plan: The Audit Report recommended the Department of Labor review its policies to ensure benefits are not provided to individuals before they become eligible. The Department of Labor developed a corrective action plan to address the finding and implement procedures to prevent the event from occurring again. To address the file cited in the finding, the Department of Labor reviewed the policy with the involved staff members and reaffirmed that a client must have completed the Selective Service Registration process prior to receiving benefits. The Department of Labor further clarified that the initiation of the registration process with Selective Service would not suffice for eligibility purposes. To prevent future occurrences of this event, the Department of Labor will add language to the Selective Service Registration policy that further emphasizes this statement and present this new language to all Department of Labor Workforce Investment Act staff at their next staff training in January 2006.

Contact: Dennis Lacquement

Anticipated Completion Date: January 15, 2006

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #05-26-01

Programs: Various CFDA's 93.575 and 93.596 Child Care Cluster, 93.658 Foster Care, 93.558 Temporary Assistance for Needy Families, 93.777 and 93.778 Medicaid Cluster - Allowable Costs/Cost Principles

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

Criteria: The State of Nebraska – Nebraska Health and Human Services System - Cost Allocation Plan for cost pool Service Management – Resource Development states “The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the Resource Development Staff.”

Condition: The Resource and Development Pool allocated \$2,491,700 administrative costs for the quarter ended December 31, 2004. Included in these costs were salaries for 135 employees. We tested the quarter ended December 31, 2004, time and effort reports related to the Resource Development cost pool and noted the following:

- Of the 135 employee salaries charged to the Pool, only 60 were identified by the Agency to complete time and effort reports. Of the 60 on the Resource Development employee listing, there were 31 employees that did not maintain any time and effort reports and 15 maintained some reports, but did not maintain all time and effort reports. There were 75 employee salaries charged to the Pool that were not included on the listing and no time and effort reports were completed.
- Seven Resource and Development employees completed time and effort reports; however, their salaries were not charged to the Resource and Development Pool.
- Total hours allocated to each program did not agree with the time and effort reports total hours for each program. As a result, costs were not accurately charged. Variances ranged from \$34,934 over-allocated to \$47,562 under-allocated.

Questioned Costs: Unknown

Context: The Resource and Development Pool allocated \$2,491,700 administrative costs for the quarter ended December 31, 2004.

Cause: The Agency intended the Resource and Development Pool to be allocated based on time reports from Resource and Development Workers, but not Resource and

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Development support staff. The Agency intended support staff to be allocated based on the Resource and Development Workers' time.

Effect: Increased risk for incorrect allocation of costs and improper charges to federal programs.

Recommendation: We recommend the Agency obtain and maintain time and effort reports for all Resource Development staff or obtain approval to amend the cost allocation plan.

Management Response: We agree with the finding and recommendation. Although we do recognize that the auditors finding is based on the actual narrative from the Public Assistance Cost Allocation Plan, we intended that the allocation of the cost center would be based on a 'proxy' statistic developed based on time and effort reports from the Resource Development Workers. The positions and the responses were not reconciled to ensure that all expected time reports were obtained.

Corrective Action Plan: A proposal will be submitted to clarify the Public Assistance Cost Allocation Plan that the proxy allocation statistic for the cost center will be based on time and effort of the Resource Development Workers assigned in the cost center. All Resource Development Workers have been contacted and reminded of the reporting requirement. We will generate list of individuals holding the class title Resource Developer to confirm that all Resource Development Workers are appropriately assigned to the cost center and that reports are received.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: March 31, 2006

Finding #05-26-02

Program: CFDA 93.659 Adoption Assistance Title IV-E - Reporting

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

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Condition: One quarterly report over-reported maintenance assistance payments by \$836,059.

Questioned Costs: None

Context: For the quarter ended September 30, 2004 the Agency reported total adoption assistance payments of \$4,086,357 but should have reported \$2,690,366. The federal share reported was \$2,447,319 but should have been \$1,611,260.

Cause: Inadequate review of report to accounting system.

Effect: Inaccurate reporting and noncompliance with federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure federal reports are accurate and make the proper adjustments for the error noted.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: The adjustment was included on the report for the quarter ended December 31, 2005. Beginning with the report for the quarter ended December 31, 2005 a new procedure was established for report documentation that includes more specific identification of the source of each amount reported. As part of the new Federal Reporting System, preparation and submission of the report will not be completed by the same individual. The report and documentation will be reviewed when the report is submitted.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: April 30, 2006

Finding #05-26-03

Program: CFDA 93.575 and 93.596 Child Care Cluster - Allowability/Eligibility

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

Criteria: Per 45 CFR Section 98.20 (a), eligible children must be under age 13 (or up to age 19, if incapable of self-care or under court supervision). Good internal control requires verification of eligible children be properly documented. Per Agency policy, parent or guardian signatures on the attendance sheets are required for in-home daycare

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

providers. Good internal control requires proper supporting documentation in the case files to determine allowability of payments to appropriate parties.

Condition: One of twenty in-home provider payments tested did not have attendance sheet signed by the parent or guardian. One of forty-five payments tested was missing birth certificate verification.

Questioned Costs: \$378 known

Context: One payment for \$336 did not have the parent or guardian sign the attendance sheets. Total sample tested was \$6,703 and total Child Care assistance payments for fiscal year 2005 were \$22,945,566. Based on this information, an extrapolated error of \$1,150,188 was calculated (5.01268% error rate times total expenditures of \$22,945,566). One payment for \$42 did not have verification of a birth certificate. Based on this information, an extrapolated error of \$143,774 was calculated (.626585% error rate times total expenditures of \$22,945,566).

Cause: Agency's review process did not identify errors.

Effect: Inability to determine if payment to provider was allowable and participant was eligible to participate in Child Care Services without proper supporting documentation.

Recommendation: We recommend the Agency review its policies and procedures to ensure that proper supporting documentation is on file regarding attendance sheets and the verification of birth certificates.

Management Response:

Corrective Action Plan: Unsigned attendance sheet for in-home provider: Attendance calendars for family and in-home providers will have language added to them, stressing the importance of proper signatures. Additionally, we will share results of the audit with local office staff, reminding them to check for signatures on the attendance calendars.

Verification by Birth Certificate: We will revise Child Care Subsidy regulations to require that the child's age be verified with a birth certificate or a match on N-FOCUS through the SVES interface.

Contact: Betty Medinger

Anticipated Completion Date: Approximately July, 2006

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Finding #05-26-04

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

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

Criteria: Per 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 completed in a timely manner.

Questioned Costs: None

Context: Three of forty-five cases selected for testing were not reviewed annually. These reviews were one to seven months late. A similar finding was noted in the prior audit.

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

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 in place by monitoring that action is taken on alerts by caseworkers and cases are reviewed annually.

Management Response: The following information was verified in a face-to-face discussion with Nebraska's Region VII ACYF Representative, Mary McKee. Redetermination of Title IV-E eligibility is not a child-specific eligibility issue. That is, there is no federal requirement that an annual review of eligibility occur in order for a child to remain IV-E eligible. When ACYF does an IV-E review with a state, the auditors check eligibility on each child whose case is reviewed to determine if the child was eligible at the time of the review. If documentation is not available during the federal review to substantiate the child's eligibility, the state is allowed to reconstruct documentation regarding the child's eligibility. If the documentation can be provided, the case is found eligible, even if the state did not complete an eligibility review at a previous time. Therefore, if an annual eligibility review is not done by the

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

state within 12 months, but is done later and shows that the child was eligible during the time payments were made, there is no eligibility error. Such was the situation with two of the cases read in this state audit. In both cases, the review done later than 12 months did show the child to be eligible for IV-E at the time the payment was made. Source Information: ACYF-CB-PIQ-85-06 Social Security Act sections 471 and 471; 45 CFR 206.10(a)(9)(iii) Title IV-E Foster Care Eligibility On-site Review Instrument and Instructions page 13 of 19.

Corrective Action Plan: HHS will continue to stress the importance of 12 month reviews to avoid having to resubmit information to ACYF to "unclaim" payments. In preparation for the federal Title IV-E Review that will be held the first week of August, 2006, all IV-E eligible cases are being reviewed to assure that eligibility has been correctly determined and that FFP was claimed appropriately.

Contact: Ruth Grosse or Margaret Bitz

Anticipated Completion Date: August 2006

Finding #05-26-05

Program: CFDA 93.658 Foster Care Title IV-E - Allowability

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

Criteria: Allowable costs for Foster Care maintenance payments are outlined in 42 USC 675 and include food, clothing, shelter, daily supervision, personal incidentals, and reasonable travel to the child's home for visitation.

Condition: Unallowable costs for travel and respite care were charged to the Foster Care grant.

Questioned Costs: \$903,986

Context: We reviewed journal entries prepared for July 2004 through June 2005 which transferred these costs from State funds to Federal funds. The Federal share of unallowable activities charged to Foster Care for the fiscal year was \$903,986.

Cause: Agency staff preparing the accounting entries indicated they were unaware of a regulation change.

Effect: Unallowable charges to Federal program.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Recommendation: We recommend the Agency correct the unallowable charges and implement procedures to ensure costs charged to Federal programs are for allowable activities.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: The adjustment was included on the report for the quarter ended September 30, 2005. The unallowable items have been removed from calculations used for adjustments made after June 30, 2005.

Contact: Jim Boshart and Kim Collins

Anticipated Completion Date: Completed

Finding #05-26-06

Program: CFDA 93.658 Foster Care Title IV-E - Reporting

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

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets.

Condition: We noted maintenance assistance payments were over-reported by \$139,337 for one of four quarterly reports tested. We also noted costs for Integrated Care Coordination (ICC) were reported but were not charged to the Foster Care Program.

Questioned Costs: None

Context: We reviewed one adjustment for ICC and noted the expenditures were paid with State General Funds. A detailed list of ICC expenditures to claim for Foster Care is prepared and submitted to the Finance Division to report; however, no entry was made on the Nebraska Information System, the State accounting system, to transfer the costs paid from the General Fund to the Foster Care Program. We reviewed all quarterly reports prepared fiscal year ended June 2005 and noted ICC costs of \$1,278,533 were claimed. The total federal share of these costs was \$763,007.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Cause: Over-reporting of maintenance assistance appeared to be a clerical error. ICC claimed on the report but not properly recorded on the accounting system appeared to be due to communication issues within the Agency.

Effect: Federal reports are not accurate and claims are not properly recorded on the State accounting system.

Recommendation: We recommend the Agency implement procedures to ensure federal reports are accurate and agree to the Nebraska Information System.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: A Journal Entry will be prepared each quarter to transfer eligible Federal expenses from the State General Fund to the Federal Grant based on the amount claimed for the ICCs. An adjustment to correct the reported amount was included on the report for the quarter ended December 31, 2005. Beginning with the report for the quarter ended December 31, 2005 a new procedure was established for report documentation that includes more specific identification of the source of each amount reported. As part of a new Federal Reporting System, preparation and submission of the report will not be completed by the same individual. The report and documentation will be reviewed when the report is submitted.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: February 28, 2006

Finding #05-26-07

Program: CFDA 93.563 Child Support Enforcement - Subrecipient Monitoring

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

Criteria: OMB Circular A-133 requires the pass-through entity to inform each subrecipient of the CFDA title and number, award name and number, and name of the Federal agency; ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements; issue a management decision on audit findings and ensure the subrecipient takes timely and appropriate corrective action.

Condition: The Agency did not properly identify Federal awards to subrecipients. CFDA number, award name and number, and name of the Federal agency were not

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

identified in the Cooperative Agreements with the counties. We also noted the Agency did not adequately review subrecipient audits.

Questioned Costs: None

Context: The Agency has developed centralized procedures related to reviewing single audit reports received; however, they did not have adequate procedures to ensure all required reports were received. The Agency reviewed Single Audit reports from three counties during the fiscal year, we noted an additional county that received over \$500,000 for which the Agency had not obtained or reviewed the Single Audit.

Cause: Unknown

Effect: The Agency is not in compliance with subrecipient monitoring requirements and is unable to provide assurance that subrecipients are in compliance with Federal requirements.

Recommendation: We recommend the Agency properly identify required federal award information subrecipients. We further recommend the Agency implement procedures to ensure all required Single Audit reports are received, reviewed, and appropriate action taken on any findings noted.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: Child Support Enforcement will include a statement in future cooperative agreements with subrecipients informing those subrecipients of the CFDA title and number, award name and number, and name of the federal agency. Child Support subrecipients are County offices that are covered by audits required to be filed at the State Auditor's Office. Procedures for review of the CSE subrecipient audits by HHSS staff are in place.

Contact: John Kwiatek and Larry Morrison

Anticipated Completion Date: June 2006

Finding #05-26-08

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse
- Subrecipient Monitoring

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Criteria: OMB Circular A-133, Subpart D, requires a pass-through entity to monitor 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 were achieved.

Condition: Subrecipient monitoring procedures should be improved. Our review of 3 of the 6 regional governing boards and 9 of 62 providers noted the following:

- Regional governing boards and providers were required to file three audits for each contract period; a financial audit, a program fidelity audit, and services purchased audit. These audits were reviewed by the Program's field representatives; however, there was no documentation on file to document the review process was performed and what corrective action was taken, if any.
- Two providers tested did not have a financial audit report on file or a financial audit report could not be located for review.
- Seven of twelve regional governing boards and providers tested did not have a program fidelity audit performed for the fiscal year ending June 30, 2004. These providers stated the next program fidelity audit would be for the fiscal year ending 2006.
- Five of twelve regional governing boards and providers tested did not have an audit of services purchased on file. If a regional governing board was a provider, a neutral entity was to perform the audit. The regional governing board's financial audits were performed by an independent CPA, but the audits did not include a statement verifying units of service purchased were received. Of the 12 audits of services purchased selected for testing, three were regional governing boards who were also providers and all three regional governing boards did not complete the requirements for the services purchased audit.
- One regional governing board and three providers' financial audits tested did not report mental health and substance abuse block grant funds received separately.
- Two regional governing boards' and seven providers' financial audits tested did not include a statement that no block grant funds were used for inpatient services.
- Three of three regional governing boards' and five of seven providers' financial audits tested were not received by the Agency within 120 days after the end of the provider's fiscal year.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Questioned Costs: None

Context: The Program operates under six regional governing boards which administer or contract with local community health facilities to provide services. The Agency has centralized monitoring procedures related to subrecipient audits, but did not receive all necessary reports and did not properly document the review of reports. The Agency passed through \$7,117,818 to the regions in fiscal year ended June 30, 2005.

Cause: Unknown

Effect: When audits are not performed or adequately reviewed, there is an increased risk of loss or misuse of funds.

Recommendations: We recommend the Agency review their procedures to ensure compliance with contracts and regulations relating to audits of regions and other providers.

Management Response: We agree to improve subrecipient monitoring and audit review procedures as recommended.

Corrective Action Plan: The state-region contract language will be revised to be consistent with the timelines that we require for a program fidelity audit. The timeframe has been changed to require a program fidelity audit every three years. We will require an additional staff person or contractor to complete audits of services purchased for the regional governing boards who are also providers. No region or provider receives block grant funds for inpatient services and only one provider during the audited year received any funds (state general) for inpatient services; therefore, it was felt that the provider wasn't required to address the issue – they didn't use any federal funds for inpatient services. State-region contract language has been changed to require the financial audit be received within nine months after the end of the provider's fiscal year.

Contact: Barbara Thomas

Anticipated Completion Date: July 1, 2006

Finding #05-26-09

Program: CFDA 10.550 Food Distribution - Subrecipient Monitoring

Federal Grantor Agency: United States Department of Agriculture

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Criteria: OMB Circular A-133, Subpart D, requires the pass-through entity to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Title 7 CFR 250.19 requires that each distributing agency shall establish a review system in order to assess the effectiveness of its food distribution program in meeting the requirements of the regulations. The Nebraska Health and Human Services Food Distribution Handbook of Instructions states the staff will conduct reviews on a minimum of twenty-five percent of the participating recipient agencies each fiscal year. A reasonable assumption is that each recipient agency would receive a review at a minimum approximately every four years. Good internal control requires timely reviews of subrecipients by pass through entities. Title 7 CFR 250.19 and the Nebraska Health and Human Services Food Distribution Handbook require that when deficiencies are noted for a participating recipient a corrective action plan shall be prepared.

Condition: 12 of 37 recipient agencies tested did not have an on-site review conducted within the last 4 years. 1 of 11 recipient agencies tested which were required to have a corrective action plan filed as a result of the on-site review, did not have this corrective action plan.

Questioned Costs: None

Context: 48% of the recipient agencies did have an on-site review conducted in the current fiscal year. Of the 520 recipient agencies, 12 have not been reviewed within the last four years. For the twelve recipient agencies tested which have not had an on-site review conducted in the last four years; two recipients have not been reviewed for approximately six years; four recipients have not been reviewed for approximately five years; and six recipients have not been reviewed within the last four years.

Cause: Unknown

Effect: Failure to provide reasonable assurance that subrecipients are in compliance with regulations.

Recommendation: We recommend the Agency review procedures in place for monitoring to ensure reviews are conducted on a timely basis.

Management Response: FDP's internal policy documented in its handbook provides that 25 percent of the recipient agencies should be reviewed annually. The intent of this policy is not to visit each recipient agency once every four years – only that a minimum of 25 percent be reviewed annually. During the statewide single

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

audit, a condition was cited because 12 of 520 recipient agencies had not been reviewed within the last four years. The single state condition cited expands recipient agency review criteria stating that each recipient agency should be reviewed once every four years. FDP staff have exceeded the internal requirement by reviewing 44 percent of recipient agencies in SFY 2004, and 48 percent in SFY 2005. Food and Nutrition Service, the federal oversight agency has reviewed the internal recipient review policy, citing that it exceeds federal requirements. We respectfully disagree with the single state audit finding.

Corrective Action Plan: See Management Response

Contact: Mike Harris

Anticipated Completion Date:

Auditor's Response: Although greater than 25 percent of the subrecipients did receive an onsite review in the fiscal year, 12 of the current subrecipients have not received an onsite review for an extended period of time and therefore the subrecipient monitoring is not in accordance with OMB Circular A-133.

Finding #05-26-10

Program: CFDA 10.550 Food Distribution - Reporting

Federal Grantor Agency: United States Department of Agriculture

Criteria: Title 7 CFR 250.14 and 250.17 require completion of a semi-annual FNS-155 reported to be filed in January for the reporting period of July 1st to December 31st of the prior year and in July for the reporting period of January 1st to June 30th of the current year. The FNS-155 report requires that each inventory product of the Food Distribution Program that exceeds a 6 month supply be reported to the USDA. The FNS-155 form requires the name of the commodity that exceeds the 6 month supply, the order number, date product was received, amount received, amount on hand (at end of reporting period), calculated amount over 6 month supply, and plans for usage or disposition of the excess product. Good internal control requires reports to be complete, accurate, and supporting documentation to be maintained.

Condition: One of one reports tested for the filing period of January 2005 did not have supporting documentation for the amounts reported on the semi-annual FNS-155 report. Amounts reported in FNS-155 report could not be verified as complete and accurate.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Questioned Costs: None

Context: The commodity amounts reported on the January 2005 FNS-155 were recalculated based on product inventory balances obtained from the Food Distribution Computer System for the end of the reporting period (December 31, 2004) and calculation procedures received from the Food Distribution Program Supervisor. The inventory balances did not agree to the amounts reported on the FNS-155. Subsequent testing of the December 31, 2004, inventory balances found that one of five commodities tested had an inventory balance that exceeded a 6 month supply which should have been reported on the January 2005 FNS-155 report. Recalculation of this commodity revealed that based on the inventory balance at the end of the reporting period and the calculated average monthly use, the Food Distribution Program has approximately a 46 month supply of this product and did not report it on the FNS-155 report. Additional testing of the June 30, 2005, inventory balances found that two of five commodities tested had an inventory balance that exceeded a 6 month supply which should have been reported on the July 2005 FNS-155 report. Recalculations of these commodities revealed that based on the inventory balance at the end of the reporting period and the calculated average monthly use, the Food Distribution Program had approximately a 7 month supply of the two products and did not report it on the FNS-155 report.

Cause: Unknown

Effect: Possible inaccurate reporting of excessive inventory balances to the USDA.

Recommendation: We recommend that the Food Distribution program develop and implement policies and procedures detailing the procedures to be followed for recalculating the excessive inventory balances on the semi-annual basis. We also recommend that supporting documentation be retained for information reported on each FNS-155.

Management Response: We agree with the final version received from the single state auditors.

Corrective Action Plan: Corrective action has been taken. A FNS-155 report is being sent to Denver FNS regional office to report excess inventories.

Contact: Mike Harris

Anticipated Completion Date: The corrective action is continuous and ongoing.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Finding #05-26-11

Program: CFDA 93.777 and 93.778 Medicaid Cluster - Eligibility

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

Criteria: Per 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 receive Medicaid funding. Title 480 NAC 2—006.02 states, “On an ongoing basis, the Disability Services Specialist will review all applicable information to determine continued eligibility. This will include an annual re-determination based on a review of the IPP, current DSS-2MR, and any other requested information.”

Condition: Medicaid reviews for Adult Development Disability were not timely.

Questioned Costs: None

Context: We tested 45 adult developmental disability Medicaid claims and noted 3 of 45 cases tested were not reviewed in a timely manner. The cases did not have an annual review during fiscal year ended June 30, 2005. Two of the cases were reviewed for eligibility in February 2004 and the subsequent review was completed in July 2005, or 5 months late. One case was reviewed by the Agency in September 2003 and the subsequent review was completed in July 2005, or 10 months late.

Cause: Unknown

Effect: Increased risk for ineligible recipients will receive Medicaid funding.

Recommendation: We recommend the Agency implement procedures to ensure eligibility reviews are completed on an annual basis.

Management Response: Management agrees that 3 files were out of compliance. The Eastern Service Area, Disability Services Specialists, Disability Services Specialists' Supervisor, and DDS Central Office have worked together to implement the following:

Corrective Action Plan:

1. An additional Disability Services Specialist has been hired in the Eastern Service Area.
2. A computer tracking system for annual waiver eligibility reviews and completion dates has been implemented.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

3. A supervisory review of 100% of the Disability Services Specialists' files has been implemented.

Contact: Cindy Brinker and Pam Hovis

Anticipated Completion Date: This is an ongoing plan of improvement. Above steps were implemented by September 30, 2005.

Finding #05-26-12

Program: CFDA 93.777 and 93.778 Medicaid Cluster - Reporting

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

Criteria: Thirty days after the end of the quarter, States electronically submit the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. The CMS-64 presents expenditures and recoveries and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled, and is available immediately at the time the claim is filed. Good internal control requires that adjustments be made in a timely manner.

Condition: Adjustments to correct prior years' reporting errors were not made in a timely manner.

Questioned Costs: NA

Context: The Agency determined in fiscal year 2005 that quarterly Medicaid expenditures had been overstated from October 1, 1997 through June 30, 2004. The expenditures related to Women with Cancer and the State Children's Insurance Program (CHIP) had been double reported. The expenditures for the quarter ended September 30, 2004 were properly reported; however, the adjustment to correct prior quarters was not reported until the quarter ended June 30, 2005. The total Women with Cancer over-reported was \$2,814,839 and total CHIP over-reported was \$106,117,397. The total federal share for these expenditures was \$66,858,662.

Cause: The Agency needed to review several past reports to make the proper adjustment.

Effect: Untimely reporting of adjustments.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Recommendation: We recommend the Agency improve procedures to ensure adjustments are reported in a timely manner.

Management Response: It is always the Agency's intent to report expenditures properly and when found and confirmed report any corrections in a timely manner. When this problem was first detected the agency immediately changed the current quarter claiming even-though all reconciliations were not completed to verify double claiming was occurring. Once all reconciliation was completed and the double reporting was verified, they were reported.

Corrective Action Plan: The Agency will continue to report expenditures and adjustments in a timely manner. Upon discovery of any errors/omissions the agency will report the amount in the current open quarter of the 64. If the agency is unsure of any error or omission they will contact the CMS representative for guidance.

Contact: Willard Bouwens, Jim Piazza, Syed Hassan, Dale Shallenberger, Mary Steiner, Kim Collins

Anticipated Completion Date: Current

Finding #05-26-13

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

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

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

Condition: The State does not have documentation to support earmarking requirements were met.

Questioned Costs: Unknown

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Context: The Agency indicated expenditures for earmarking requirements were tracked based on the Federal fiscal year and not by the allotment/grant period. As expenditures from one Federal fiscal year could include funds from up to two allotments/grants, the program was not able to identify what types of expenditures were specifically spent for each allotment.

Cause: The Agency tracks expenditures by the fiscal year because that is the format required in the maternal and Child Health Services Title V Block Grant Program “Guidance and Forms for Title V Application/Annual Report”. Nebraska maintains the allotment/grant (with 2-year period of availability) is the unit to be tested for earmarking compliance. The Financial Status Report captures expenditures of the 2-year period, yet it does not allow for those expenditures to be reported by the earmarked categories. The burden of the annual report (by fiscal year) required by the federal agency is significant, so keeping a separate accounting based on 2-year allotment/grant would greatly add to the burden.

Effect: Without recording expenditures for each allotment/grant, we are unable to determine if the Agency is in compliance with the earmarking requirements.

Recommendation: We recommend the Agency continue to work with the federal agency to resolve this finding.

Management Response: Earmarking documentation is available by federal fiscal year, which is the reporting period of the annual report requirement, rather than by allotment. NHHSS believes that a correct interpretation of the applicable requirements is that the earmarking requirement may be met over the two year period of availability of funds and need not be met in each year. Agency staff have been diligent in their efforts to clear this finding, which includes submitting recommendations to the OMB A-133 Compliance Supplement. Our recommendations to the OMB Office of Federal Financial Management (OFFM), if incorporated, would assist auditors in the correct interpretation of the earmarking requirement.

In addition, the Agency has submitted formal recommendations to the federal Health Resources and Services Administration (HRSA) and the OMB Office of Information and Regulatory Affairs (OIRA). Our recommendations have been submitted on the information collection activities established in the MCH Grant Guidance and Forms OMB No. 0915-0172, which is a process created under the Paperwork Reduction Act. NHHSS’ recommendations include combining the requirement for fiscal data in the annual report with the requirement and timing for submission called for under 45 CFR 96.30, i.e. Standard Form 269(a) Financial Status Report (short form). This would permit report of earmarked expenditures by allotment rather than fiscal year.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Corrective Action Plan: Agency staff will continue to follow-up on submissions made to federal agency officials.

Contact: Rayma Delaney

Anticipated Completion Date: June 30, 2006

Finding #05-26-14

Program: CFDA 93.558 Temporary Assistance for Needy Families - Allowability/Eligibility

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

Criteria: Title 42 U.S.C. Section 608(a)(1) provides no State that receives a grant under Section 603 may provide assistance to a family unless that family includes a minor child.

Title 8 U.S.C. Section 1611(a) states, individuals receiving assistance must be a “qualified alien” or a U.S. citizen.

Title 45 CFR Section 261.14(a) states, “if an individual refuses to engage in work required under Section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.”

Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes.

Good internal control requires income to be verified to external sources.

Per Title 45 CFR Section 205.56(a)(1), the State agency will use the information obtained under Section 205.55, in conjunction with other information, for determining individuals’ eligibility for assistance under the State plan and determining the amount of assistance. The State agency shall review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the applicant’s or the recipient’s eligibility or the amount of assistance.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Title 45 CFR Section 233.10(a)(2) states, “the State agency will establish methods for identifying the expenditures for assistance for any groups included in the plan for which Federal financial participation in assistance may not be claimed.”

Title 468 NAC 1-010 requires the worker to redetermine eligibility for grant and medical assistance every six months.

Per Title 45 CFR Section 263.11(a) a State may use Federal TANF funds for expenditures that are reasonably calculated to accomplish the purposes of TANF.

Condition: We tested 94 payments with 71 cases paid from Federal/State TANF dollars and 23 cases paid from the Separate State Program. Of the 71 Federal/State cases tested, 26 contained errors. Of the 23 Separate State Program cases tested, 6 contained errors. The Separate State Program payments with errors are noted below but are not included in the questioned costs.

Questioned Costs: \$2,175 Known, \$4,706,027 Extrapolated

Context: Five cases (one was Separate State Program) tested did not have documentation verifying the child’s date of birth to ensure the child was a minor. In addition, two cases tested the child was 18 years of age and was not attending school or participating in Employment First as required to be included in the unit size.

Two cases (one was Separate State Program) tested did not have documentation to ensure the custodial parent receiving assistance was a U.S. citizen or qualified alien. The Agency did obtain documentation subsequent to fieldwork, for one case; therefore, we did not question costs for this case. In addition, one of the cases tested, the individual was not engaged in required work and the Agency did not reduce or deny assistance to the individual. The custodial parent wanted to spend time with their child, so participation in Employment First was not required by the caseworker (per the notes in NFOCUS) for an additional four months; however, the custodial parent should have been Employment First mandatory during the four months.

One case tested paid into the State twice for an overpayment. For a period of five months \$21 was included in unearned income which reduced the individual’s monthly assistance payment. During the same time period the Agency included a recoupment amount of \$29 in the budget which also reduced the assistance payment. Therefore, the recipient reimbursed the Agency twice for the overpayment.

We noted six cases tested where income was not verified for the parents. (See Finding #05-26-15 – Determination of “Needy” for detailed information regarding the additional six attribute exceptions.)

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Four cases (one was Separate State Program) tested had earned income which was not verified.

In nine cases (four were Separate State Program) tested, the Agency verified the recipient's income, but did not include the income on the budget to determine the assistance payment.

Six cases were paid with Federal and State funds but should have been paid with only State funds because five of the cases were Employment First exempt and one case was a two-parent family. In addition, one of the individuals was not engaged in required work and the Agency did not reduce or deny assistance. The individual was Employment First exempt for a period of six months due to a knee surgery. A doctor's note was not in the case file and no review was completed by the State Review Board after three months of incapacity as required.

In five cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews ranged between 6 and 23 months overdue.

In one case tested, there was no documentation to verify a supportive service payment made for motor vehicle gas under the Employment First program.

Total Federal payment errors noted during testing was \$2,175. Total Federal sample tested was \$8,850 and total TANF Federal assistance payments for fiscal year 2005 were \$19,148,660. The extrapolated error for fiscal year 2005 was \$4,706,027, (error rate multiplied by the total expenditures).

Cause: Unknown

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal regulations.

Management Response: HHS agrees that the state auditor identified some practices that could put program funds at risk.

Corrective Action Plan: The HHS corrective action plan for Finding #05-26-14 is divided into three sections.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I

Auditors categorized six like cases with possible at risk dollar errors. In each of these cases, the TANF payment amount made to the family was not questioned. The auditors determined however that the computer did not code the payment into the proper state/federal funding stream.

HHS has immediately identified the computer deficiency. A short-term solution is in place that meets Federal requirements, effective January 2006. HHS will identify payments made in the aggregate and make necessary adjustments related to the state/federal funding. Appropriate adjustments will be made in NIS and captured on the ACF-196. An automated solution is planned for November 2006.

Section II

HHS will undertake an aggressive case review initiative to reduce and minimize the possible at risk TANF payments found during the auditors' desk reviews of 94 cases. HHS will conduct 2,411 case record reviews to better measure TANF at risk payments in all areas of the state. An example of this is the administrative service area near the Panhandle that has approximately 1,100 TANF cases. The auditors reviewed six TANF cases from this area. The HHS initiative will review 240 TANF cases from this area. The reviews will ensure immediate, accurate, and correct administration of cases through the identification of errors.

HHS successfully used this review model in year 2000 to improve Food Stamp Program payment accuracy. (Nebraska currently ranks #2 and #11 in the nation in the two Food Stamp accuracy categories). The review model has been successfully used in other states including Kansas, Missouri, New York and Connecticut.

Statewide, HHS will:

- Conduct 2,411 (or 20% of the monthly caseload) intensive case record reviews with immediate correction of TANF program errors.
- Conduct onsite one-on-one training with front line staff and supervisors when errors are identified (elbow training).
- Inform workers of actions needed to correct errors and the deadline for making the corrections.
- Follow up with worker's supervisor on needed correction.
- Provide group training sessions throughout the state.
- Assess worker job duties and caseloads.
- Identify worker time savers.

The case review initiative will be conducted in two phases.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Phase one provides eligibility staff with the appropriate steps to correct cited errors and prevent the identified error from recurring in the future. Phase one will also provide baseline performance metrics for comparison of findings in phase two. Upon completion of phase one case reviews, training will be conducted to address the major process and knowledge issues discovered.

Phase two reviews will be conducted and more formal training sessions will be provided in order to assess and confirm the actual level of improvement. Upon completion of phase two, supervisory staff will begin reviewing TANF cases monthly to ensure that improvements will be sustained.

The primary goals and objectives for this task are:

- Ensure immediate, accurate, and correct administration of cases through identification of errors.
- Development of training, and best practices that are specifically targeted at the causal factors for errors.
- Identification of policy and procedures that require clarification.
- Prevent future errors through analysis.

Eligibility Elements: Case record reviewers will review the following information:

A. Family Composition

- Is there proper documentation to determine family membership correctly?
- Is the standard filing unit correct?
- Is the family cap applied correctly.
- Is the case narrative adequate?
- Is N-Focus coded correctly?

B. Citizenship/Alien Status

- Is there proof qualifying alien status?
- Is there questionable information about citizenship?
- Is verification acceptable?
- Is the case narrative adequate?
- Is N-Focus coded correctly?

C. Earned Income

- Correct determination - did worker count or exclude properly?
- Computation correct - did worker prospect correctly, use correct pay date, amounts?
- Data matches - were available wage matches used such as State Employment wage or New Hire data?
- Verification - is it acceptable?

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

- Narrative is it adequate to describe worker actions?
- N-Focus - is data entry correct?

D. Unearned Income -

- Correct determination - did worker count or exclude properly?
- Computation correct - did worker prospect correctly, use correct pay dates, amounts?
- Data matches - was available income used/verified and budgeted timely?
- Verification - is it acceptable?
- Narrative - is it adequate to describe worker actions?
- N-Focus - is data entry correct?

E. Reviews/Participation

- Are semi-annual case reviews being timely conducted?
- Is the application completed properly?
- Was case ever closed due to lack of adequate child care?

F. Child Support:

- Are Child Support referrals being made on all non-custodial parents?
- Is the opportunity to claim Good Cause being explained to custodial parents?
- Are Sanctions for non-cooperation being imposed promptly upon receipt of the Notice of Non- Cooperation by the TANF worker?
- Are Child Support Sanctions being lifted promptly when the TANF client's cooperation has been restored?

G. Employment First:

- Is there an Employment First case on N-Focus for each adult in the TANF payment?
- Is there a self-sufficiency contract in the record? Was it completed timely?
- Has the client refused to cooperate in contract development or failed to participate? Was TANF case closed or sanctioned correctly and timely?
- Has the participant received supportive services?
- Have appropriate time limits (24/48/60) been tracked correctly and reflected in the case record or N-FOCUS?
- Has the participant received more than 60 months of Federal TANF benefits? Was case reviewed for hardship?
- Is the narrative adequate to describe worker and/or contractor actions?

Section III

Cases identified by auditors with questionable costs during the TANF audit project have been identified and reviewed by HHS policy staff. Corrective action plans for each individual case have been developed and sent to local office TANF workers for resolution. Central office policy staff will follow up to ensure that these cases are properly resolved.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Contact: Mike Harris

Anticipated Completion Dates:

Section I – Complete.

Section II – Phase one of review initiative will be completed in October 2006. Phase II will be completed in February 2007. After February 2007, ongoing monitoring will be performed and recorded by front line supervisors conducting monthly TANF case reviews.

Section III – February 17, 2006

Finding #05-26-15

Program: CFDA 93.558 Temporary Assistance for Needy Families - Allowability/Eligibility

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

Criteria: Title 468 NAC 2-006 states “the worker shall determine the ability of the parent to support each dependent child in whose behalf ADC/MA is applied for or received.” Title 45 CFR Section 233.20(a)(3)(vi)(A) states, “In family groups living together, income of the spouse is considered available for his spouse and income of a parent is considered available for children under 21 . . .” Title 64 F.R. 17825 states a family may not receive assistance under the TANF program unless the family is needy. The term “needy” for TANF and MOE purposes means financial deprivation, i.e., lacking adequate income and resources. Title 45 CFR Section 205.55(d) states, “The Secretary may, based upon application from a State, permit a State to obtain and use income and eligibility information from an alternate source or sources . . . The State agency must demonstrate to the Secretary that the alternate source or sources is as timely, complete and useful for verifying eligibility and benefit amounts.”

Condition: The Agency did not have adequate procedures to verify income of parents who did not provide social security numbers. Without adequate income verification the Agency is unable to determine if the family was needy.

Questioned Costs: See Finding #05-26-14 – of Comments Related to the Single Audit.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Context: We noted 6 out of 94 cases tested where the income of the custodial parents of the minor child was not verified. The parents appeared to be illegal aliens per the caseworker notes on NFOCUS. Their earnings were not adequately verified because of their status. Therefore, it could not be confirmed they were a “needy” family. In all six cases, the parents were not included in the unit size nor did they receive assistance for themselves. Per Title 468 NAC 1-004, the term “needy individual” means “one whose income and other resources for maintenance are found under assistance standards to be insufficient for meeting the basic requirements, and to be within the resource limits allowed an individual.”

The Income Eligibility and Verification System (IEVS) interfaces with various sources, such as, the Internal Revenue Service and State Employer Wages, the interface then alerts the Agency to income sources. The system can only be used when the parent provides a valid social security number.

- Two cases noted were two-parent families and it was stated in the case narrative in NFOCUS that the parents were illegal aliens. Neither parent’s income was verified through IEVS because a social security number was not provided. No other verification procedures were noted in the file.
- One case was a single-parent family and it was stated in the case narrative in NFOCUS the parent was an illegal alien. In the case file there were pay stubs for the parent with a social security number (SSN) on them. We checked the validity of the SSN and the number was not valid. The parent’s income was not verified through IEVS because a valid SSN was not provided. The parent signed a document verifying she was not working. We do not consider this adequate verification of income.
- One of the cases tested was a single-parent family, and it stated in the case narrative in NFOCUS the parent was an illegal alien. There was a pay stub in the case file with the parent’s SSN. The SSN was not used to interface with IEVS because the caseworker stated the SSN did not belong to the parent. We checked the validity of the SSN and the number was valid; however, the number was issued approximately 28 years before the individual was born.
- One case was a single-parent family and it stated in the case narrative in NFOCUS the parent was an illegal alien. The case file contained income computation forms with the most recent date being December 2004. This form did not contain the parent’s name, but was signed by the employer. The employer did not complete the section of the wage verification form indicating whether the wages were going to be reported on a W-2 or a 1099 form. The case file had a self-employment ledger signed by the caseworker in December 2004, which

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

stated the parent was being paid in cash. The parent's income was not verified with IEVS because a social security number was not provided.

- One case was a single-parent family. It stated in the case narrative in NFOCUS the parent was an illegal alien. The parent signed a form indicating they had no income, we do not consider this adequate verification of the parent's income. The parent's income was not verified with IEVS because a social security number was not provided.

The Agency did not have adequate procedures to determine if a family was needy when the parents did not provide a valid SSN.

Cause: The Agency stated that when they have a non-citizen parent who is applying on behalf of U.S. citizen children, the parent is not requesting assistance on their own behalf. The Agency has directive from the U.S. Department of Health and Human Services, Office of Civil Rights, that they cannot require non-applicants to furnish either Immigration documents or Social Security Numbers. The Agency did not have adequate procedures to determine if a family was needy when the parents did not provide a valid SSN.

Effect: There is an increased risk that assistance is being provided to applicants who are not "needy."

Recommendation: We recommend the Agency implement procedures to verify the income of the parents who do not provide social security numbers.

Management Response: HHS comment: It is the understanding of HHS that in all of the reviewed cases in Finding #05-26-15, there were no findings of benefits paid incorrectly to non-citizen parents and that the non-citizen parents were correctly excluded when benefits were determined for citizen children. It should be also be noted that HHS has not been cited as being out of compliance with Federal or State laws.

HHS understands the importance of using available tools to verify income to reduce eligibility errors.

HHS must ensure however that it does not violate existing laws and regulations, especially if these violations inappropriately discourage eligible individuals in immigrant families, such as children, from seeking needed assistance.

HHS has written verification, documentation and client responsibility guidelines. These guidelines include both primary and secondary sources of verification.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Primary sources include pay stubs, employer wage records, or statements from employers. Secondary sources include employee W-2 forms, Job Service records, income tax records, unemployment records, and mortgage loan information. These guidelines can be located at 468 NAC 1-006, NAC 1-008, and NAC-000-300.

HHS has reviewed the records and has the following comments:

HHS has reviewed the N-FOCUS case narratives for these cases. While the term “illegal alien” is used in the report, HHS is bound by federal law when determining the immigration status of TANF program applicants. The finding or conclusion of unlawful presence in the United States must be supported by a determination of the INS of the Executive Office of Immigration Review, such as a Final Order of Deportation. The determination of immigrant status for the purposes of the Immigration and Nationality Act is the responsibility of the Department of Justice, not any other agency.

The auditors also state that “earnings were not adequately verified because of their status.” HHS review of the cases finds that income from tax forms, self-employment, regular employment was addressed and documented in three cases. Collateral contacts were also made with local service agencies, landlords, and with persons familiar with family circumstances in three of the cases.

Corrective Action Plan: The HHS corrective action plan for Finding #05-26-15 is divided into two sections.

Section I

Health and Human Service contacted the proper federal authorities on February 10, 2006 to determine if other states have made application to use income and eligibility information from an alternate source or sources for non-citizen families described in this finding.

Section II

Health and Human Services, during the case review initiative described in Finding #05-26-14, anticipates reviewing 150 randomly selected case records in which the custodial parent(s) will not be a legal citizen. Caseworker adherence to HHSS written guidelines (see above) for case income verification and documentation will be a key review element during these reviews. The income verification and other eligibility data errors contained in these cases will be analyzed in relation to errors found in all reviewed cases.

After completion of phase two in Finding #05-26-14, HHS will use error analysis data to determine if an application should be made to the federal government to use

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

income and eligibility information from an alternate source or sources for families described in this finding.

Contact: Mike Harris

Anticipated Completion Date:

Section I – Letter was sent to the Office of Family Assistance on February 10, 2006.

Section II – February 2007 after Phase II of the case review initiative described in Finding #05-26-14.

Finding #05-26-16

Program: CFDA 93.558 Temporary Assistance for Needy Families - Eligibility

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

Criteria: OMB Circular A-133 requires agencies to maintain internal control to ensure compliance with Federal requirements. Title 45 CFR Section 233.10(a)(1)(iv) states, “Eligibility conditions must be applied on a consistent and equitable basis throughout the State.”

Furthermore, Title 45 CFR Section 233.20(a)(2) requires the State to, “(i) Specify a statewide standard, expressed in money amounts, to be used in determining (a) the need of applicants and recipients and (b) the amount of the assistance payment . . . (iii) Provide that the standard will be uniformly applied throughout the State . . .”

Condition: Supervisory reviews of eligibility and benefit amounts are not documented and no exception reports are generated when caseworkers override the standard benefit amount.

Questioned Costs: None

Context: The NFOCUS system is used to input eligibility information and to calculate the benefit based on the financial need of the family, caseworkers verify the information and approve the budget. Caseworkers have the ability to override the budget calculated by NFOCUS, the budget will note the override, but does not alert supervisors or generate an exception report. The Agency indicated supervisors perform periodic reviews of cases; however, there is no documentation.

Cause: Unknown

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Effect: Increased risk of excessive benefit payments or ineligible individuals receiving assistance.

Recommendation: We recommend the Agency implement and document procedures to ensure assistance is provided to eligible families and at the proper amount.

Management Response: On January 23, 2006, HHS identified 65 budgets out of approximately 11,500 computer budgets as worker override budgets (0.56%).

Corrective Action Plan: HHS has immediately implemented a procedure that controls the process when workers override TANF budgets in the N-FOCUS computer system.

A directive was sent to all Local Office staff on January 24, 2006 to implement a procedure to require prior approval from Central Office staff before a TANF budget is overridden.

A monthly reconciliation of the listing of overridden budgets with approvals given will be done by Central Office staff and a contact made with the Supervisor if there is an override which was not given prior approval.

This process will remain in place for approximately 3 to 6 months while N-FOCUS Production Support and OEFS Management determine the appropriate long-term approach, i.e. a monthly report to Supervisors of overridden budgets, or implementing security on overrides in the automated system.

Contact: Mike Harris

Anticipated Completion Date: Initial review started in January 2006; Secondary review by August 1, 2006. Long-term Approach decided by December 2006.

Finding #05-26-17

Program: CFDA 93.558 Temporary Assistance for Needy Families - Eligibility

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

Criteria: Title 45 CFR Section 264.1(a)(1) states, "subject to the exceptions in this section, no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received Federal assistance for a total of five years (i.e., 60 cumulative months, whether

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

or not consecutive).” Good internal control requires there to be adequate documentation to support all assistance payments made to a recipient.

Condition: Two of the ninety-four cases tested had received more than 60 months of Federal TANF assistance payments.

Questioned Costs: \$1,466 known

Context: The assistance payments made in excess of 60 months ranged from 8 to 23 additional payments. We noted the March 2005 payment for the individuals tested was correctly paid from only State funds; however, the Agency does not keep a separate log for payments made to each recipient from the date of the first application, so we were unable to verify which payments from inception of the State Plan, October 1997, were paid from Federal TANF funds. The Agency had a report showing those case files which have received assistance for longer than 60 months. This report is generated from NFOCUS based on the caseworker inputting monthly payments into the Employment First tracking screen. During testing it was noted the caseworkers do not consistently input the monthly assistance payment information into the tracking screen. We noted the recipients who had received over 60 months of assistance payments did not appear on this report. Therefore, this report is not reliable. The State of Nebraska changed the accounting system being used from NAS to NIS. We were only able to determine if the assistance payments were paid from Federal TANF funds since the inception of NIS in 2003. The Agency is permitted to provide Federal TANF assistance longer than 60 months for up to 20 percent of the average number of families receiving assistance if the family has a hardship. The two cases tested did not have a documented hardship which would have included them in the 20 percent.

Cause: Unknown

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures and monitor the five-year requirement to ensure funds are properly expended in accordance with Federal regulations.

Management Response: HHS agrees that cases exceeding 60-months should have a documented hardship.

Corrective Action Plan: Starting in January 2006, HHS has completed an enhancement to the N-FOCUS automated eligibility system. The system will automatically on the 10th of each month create an entry on the tracking screen for those appropriate persons who are participants in a TANF case that is paid by

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

federal/state funds. This enhancement will address worker inconsistency in inputting monthly assistance payment information in the Employment First 60 Month Time Limited Tracking screen. Length of TANF program participation will continue to be monitored in the case review initiative as outlined in Finding #05-26-14. Central Office Employment First staff will continue to utilize the report generated by N-FOCUS listing all participants that have received assistance for longer than 60 months to monitor that the state does not exceed the Federal 20% limit of hardship cases.

Contact: Mike Harris

Anticipated Completion Date: The automated system enhancement became effective in January 2006. Length of TANF participation will be monitored in Phases I and II of the case initiative described in Finding #05-26-14.

Finding #05-26-18

Program: CFDA 93.558 Temporary Assistance for Needy Families - Reporting

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

Criteria: Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires periodic reconciliations between computerized information systems used.

Condition: The Agency does not use separate business units (BU) on NIS for Separate State Program benefit payments and State MOE benefit payments. The Agency uses the NFOCUS system to enter eligibility information and determine benefit amounts. After the benefit has been approved for payment, the NFOCUS system interfaces with the Nebraska Information System (NIS), the official State accounting system, for payment. The Agency also utilizes a shadow database of NFOCUS information to report the Separate State Program expenditures on the TANF ACF-196.

Questioned Costs: None

Context: Although NIS and NFOCUS batches are reconciled daily, there are additional adjustments on NIS that are not reflected on the shadow database used to report the Separate State Program.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Cause: Unknown

Effect: Increased risk for misuse of funds and inaccurate reporting.

Recommendation: We recommend the Agency perform periodic reconciliations of NFOCUS to NIS. We also recommend the Agency use a separate BU for payments made from the Separate State Program.

Management Response: HHS agrees that a separate business unit is needed for the Separate State Program.

Corrective Action Plan: NIS is used to report federal expenditures on the ACF-196. Therefore, all adjustments made outside of N-FOCUS are reflected in the ACF-196 and federal funds are appropriately reported. Cash assistance for Separate State Program is reported from N-FOCUS. The ACF-196 does not require that all state expenditures for the Separate State Program be reported. This information is only used to determine if Nebraska has met the Maintenance of Effort. The purpose of the “shadow” N-FOCUS database is to enhance reporting capabilities without compromising the response time of the “live” N-FOCUS database. It is used for many purposes in addition to ACF-196 reporting.

Because NIS and N-FOCUS batches are electronically reconciled daily, there is no need to perform the periodic reconciliation of N-FOCUS to NIS recommended by the audit.

Currently, two business units are used for Subprogram 43 – TANF. Effective January 29, 2006, a distinct business unit will be added for “state only” payments. State only payments include payments under the Separate State Program and transitional grant assistance. Beginning with the July 2006 NFOCUS release, an additional BU will be added so that payments under the Separate State Program can be separated from transitional grant cases. With this coding, the portion of the ACF-196 related to cash assistance could be completed using NIS data only.

Contact: Willard Bouwens

Anticipated Completion Date: July 1, 2006

Finding #05-26-19

Program: CFDA 93.558 Temporary Assistance for Needy Families - Allowability

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

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

Criteria: Good internal control requires compliance with contractual requirements; in addition good internal control requires the Agency to ensure requirements reported are accurate. The contract states, “The provider is expected to show that at least 51% of the individuals who participate in job search instruction will be employed within three (3) months.”

Condition: One of three contractors tested did not ensure at least 51% of the individuals who participate in job search instruction were employed within three months. In addition, one of five individuals tested from the monthly report did not have verification of reported employment.

Questioned Costs: None

Context: The Agency contracts with private vendors to provide educational and employment support services for TANF recipients. The December 2004 monthly report for one of the contractors tested reported 27 individuals were employed within three months; there were a total of 269 individuals in job search for the month. This is approximately 10% of the total. In addition, one individual tested was noted as starting employment in December 2004; however, the employment was not verified and per the IEVS there was no reported income during this period. The contractor was paid \$1,100,890 during State fiscal year 2005.

Cause: Unknown

Effect: Noncompliance with contractual requirements increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency ensure compliance and monitoring of contractual requirements.

Management Response: HHS agrees that contracts must be monitored.

Corrective Action Plan: The Service Area contract managers will meet with designated contractor staff on a bimonthly schedule to review the reports and address any issues.

All Employment First Contractors and all Eastern Service Area internal Employment First staff are required to submit a Contractor's Statistical Comparison Report. This report provides the State of Nebraska with a consistent reporting tool for all Employment First contracts across the state. This report requirement was

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

implemented on January 2005 with a 12 month pilot period. Revisions and enhancements were made following the pilot period and the contractors were required to submit the improved report beginning with the January 2006 reporting period.

This report will assist monitoring in referral statistics, initial referral contact, caseload size, component activity, participation rate statistics, employment statistics, average wage statistics, employment retention statistics, case management as well as cost.

In regards to the job search component, this report will identify the number of individuals in job search as well as the number of individuals in job search over 3 months so that the Service Area contract managers will be able to monitor the 51% requirement.

Central Office consolidates all the individual contractor reports into one report for overall monitoring and comparison. This consolidated report is then shared with all contractors.

Contact: Mike Harris

Anticipated Completion Date: Completed January, 2006

Finding #05-26-20

Program: CFDA 93.558 Temporary Assistance for Needy Families - Special Tests

Federal Grantor Agency: United States Department of Health and Human Services

Criteria: Title 42 U.S.C. Section 608(a)(2)(A) states, "... the State shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance."

Good internal control requires adequate procedures to ensure the recipient's benefits are reduced and reduced timely when a CSE-10 form is received from Child Support Enforcement (CSE).

Condition: The TANF assistance payment was not properly reduced or was not reduced timely for 3 of 14 cases tested.

Questioned Costs: \$128 known

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Context: There were a total of 53 cases tested to determine if the TANF assistance payment was reduced properly and if the reduction was done timely. Of these, 14 cases had CSE sanctions during Fiscal Year 2005. A non-cooperating individual's assistance was not properly reduced by at least 25%, terminated, or, if not reduced the reason was documented and allowable, for two of the fourteen applicable cases tested. The TANF caseworker removed the custodial parent from the unit size instead of reducing the assistance by at least 25% for one of these cases. The caseworker never imposed the sanction for the TANF assistance for the other case. Within the fourteen cases with CSE sanctions, there were eight cases where there was a reduction in the TANF assistance payment. The reduction in assistance was not completed timely in one of these cases, but was imposed one month later.

Cause: The Agency does not have a procedure in place to determine when a CSE-10 form has been sent to the TANF caseworker from Child Support Enforcement or to determine the total number of CSE sanctions at a given time.

Effect: Without having proper procedures in place to ensure assistance payments are reduced and reduced timely there is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the program implement controls to ensure all CSE referrals are properly reduced or terminated.

Management Response: HHS agrees that appropriate TANF case actions should be taken upon receipt of a CSE referral.

Corrective Action Plan: The Child Support Enforcement System will send an Alert to the TANF worker when a TANF Custodial Parent is to be sanctioned for non-cooperation. This Alert will go into production with the November 2006 CHARTS release. In the interim, Child Support Enforcement Staff were instructed on February 17, 2006 that any CSE-10 recommending either a Sanction or the lifting of a Sanction is to be routed to the TANF worker and Supervisor. The Supervisor will be responsible for seeing that the TANF worker takes the appropriate action. Monitoring of this activity is included in the Finding #05-26-14 Review elements.

Contact: Mike Harris

Anticipated Completion Date: Interim solution completed by February 17, 2006. Automated alert from the Child Support Enforcement System to TANF worker completed by November 2006.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Finding #05-26-21

Program: CFDA 93.558 Temporary Assistance for Needy Families - Special Tests

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

Criteria: Title 42 U.S.C. Section 607(e)(2) states, "A State may not reduce or terminate assistance under the State program funded under this part based on a refusal of an individual to engage in work required in accordance with this section if the individual is a single custodial parent caring for a child who has not attained 6 years of age and the individual proves that the individual has a demonstrated inability (as determined by the State) to obtain needed child care ..." Good internal control requires adequate controls to ensure cases are not closed due to lack of child care.

Condition: There was a lack of controls to ensure TANF cases were not closed due to lack of obtaining child care.

Questioned Costs: None

Context: Supervisors do not perform consistent reviews of closed cases to ensure cases were not closed due to lack of obtaining child care. We noted, as of September 2005 closed cases were being reviewed by the Payment Accuracy Specialist and any discrepancies were noted and passed on to the appropriate supervisor for review. In the Agency's rules and regulations it states a TANF assistance case may not be closed due to lack of obtaining child care. We did not note any TANF assistance cases closed due to lack of obtaining child care.

Cause: Supervisors did not consistently review closed cases.

Effect: Without having an adequate control in place to ensure cases were not closed due to lack of obtaining child care there is increased risk of an individual not receiving proper benefits in accordance with federal requirements.

Recommendation: We recommend the program implement controls to ensure cases are not closed due to lack of obtaining child care.

Management Response: HHS agrees to review a sampling of closed cases.

Corrective Action Plan: Health and Human Services will review a representative sampling of TANF case closures within the framework of the case review initiative described in Finding #05-26-14 to implement controls to ensure cases are not closed due to the lack of obtaining child care.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Contact: Mike Harris

Anticipated Completion Date: Initial Review completed at the end of Phase one in October 2006.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

DEPARTMENT OF MILITARY

Finding #05-31-01

Program: CFDA 97.042 Emergency Management Performance Grants, 16.007/97.004 State Domestic Preparedness Equipment Support, and 12.401 National Guard Military Operation and Maintenance - Allowable Costs/Cost Principles

Federal Grantor Agency: Department of Homeland Security and Department of Defense

Criteria: OMB Circular A-87 indicates the 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 more than one Federal award, a distribution of their salaries or wages will be supported by personnel activity reports which 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.

Condition: Emergency Management Performance Grants and National Guard Military Operations and Maintenance did not require employees who worked only on one Federal program to complete semiannual certifications that the employees worked solely on that program for the period covered by the certification. The Nebraska Emergency Management Agency (NEMA) Assistant Director semi-annually approves payroll coding for the Emergency Management Performance Grants Program. However, the payroll coding listing does not certify that the employees worked solely on that program or the period covered. The National Guard Military Operation and Maintenance Program lists the business units and the Cooperative Agreements tied to each business unit. However, there is no documentation of approval by the supervisor, the listing does not include individual employees, and there is no certification that they worked solely on the program for the period covered. Time worked by employees on multiple federal programs was not based on an after-the-fact distribution of actual activity of each employee for the State Domestic Equipment Preparedness Support Program and Emergency Management Performance Grant.

Questioned Costs: None

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Context: There are 35 employees for Emergency Management Performance Grants. All nine employees tested did not have semiannual certifications. The total payroll charged to this Federal program for fiscal year 2005 was \$510,651. There are 75 employees for National Guard Military Operations and Maintenance. All ten employees tested did not have semiannual certifications. The total payroll charged to this Federal program for fiscal year 2005 was \$3,880,671. Two of two employees tested with time charged to the State Domestic Equipment Preparedness Support Program and Emergency Management Performance Grant did not have timesheets that identified total hours worked on each program. Total payroll charged to State Domestic Equipment Support Program for the fiscal year was \$338,049.

Cause: Agency thought they had met this Federal requirement by the approval of payroll coding.

Effect: Noncompliance with requirements could result in unallowable costs charged to Federal grants.

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Charges must certify that employees work solely on that program and the period covered. Time worked by employees on multiple federal programs must be based on an after-the-fact distribution of actual activity.

Management Response: After the KPMG audit of 2004, NEMA instituted G.O. 1102, 10 June 2005, (copy furnished to Audit staff during the Statewide Single Audit) which sets forth that the Budget Manager will ensure payroll coding to the proper funding source per grant for each employee. Additionally, the employee's signature and the supervisor's approval are official acknowledgement by both the employee and the supervisor that the hours worked were true, correct, and had been credited to the proper funding source. NEMA very actively monitors employee work performance and grant guidelines for payroll and feel that the intent of OMB Circular A-87 is being fulfilled.

OMB Circular No. A-87 requires certifications be prepared at least semi-annually and will be signed by the employee OR the supervisory official having first hand knowledge of the work performed by the employee. This does not require the employee to make the certification. NEMA is meeting the intent of A-87 with the supervisory criteria contained in G.O. 1102 on a monthly basis with the approval of the employee timesheet.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Corrective Action Plan: NEMA will change the official timesheet adding the supervisory certification to match the requirement of G.O. 1102. The change to the official timesheet adding the supervisory certification was implemented January 1, 2006. Memorandum providing guidance for all federally reimbursed employees was implemented October 25, 2005. Employee timesheets and personnel activity reports further substantiate that the Nebraska Military Department/NEMA is in compliance with OMB Circular A-87. In addition, the HR Personnel Manager was notified of the importance of verifying supervisor signatures are on all timesheets submitted.

Contact: Al Berndt, NEMA

Anticipated Completion Date: January 1, 2006

Auditor's Response: The timesheets utilized during fiscal year 2005 did not always account for total activity of the employee as required by Circular A-87, but only recorded leave usage. The timesheets did not indicate which program the employee worked for when activity related to multiple programs. In addition, all timesheets were not signed by the supervisor, 1 of 18 EMPG and 1 of 20 National Guard employees timesheets tested were not approved. The Agency was not in compliance with OMB Circular A-87 during fiscal year 2005.

Finding #05-31-02

Program: 97.042 Emergency Management Performance Grants - Subrecipient Monitoring

Federal Grantor Agency: Department of Homeland Security

Criteria: Per OMB Circular A-133, a pass-through entity is responsible for 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. Good internal control requires the Agency to monitor the subrecipient's use of Federal awards to ensure compliance with Federal requirements.

Condition: We noted the Agency allowed subrecipients to submit a certification of expenses paid signed by the county clerk in lieu of submitting receipts and other supporting documentation. This finding was noted in the 2004 fiscal year audit. As a result, the Agency implemented a new policy for the Federal grant year beginning in October 2004. This policy requires subrecipients to submit invoices as supporting documentation for reimbursements.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Questioned Costs: \$77,918 known; \$690,652 likely

Context: We noted 12 of 16 expenditures tested did not have appropriate supporting documentation. This finding has since been corrected for the grant that began for the Federal fiscal year beginning in October 2004. Subrecipients are now required to send in all supporting documentation to receive reimbursement payments. Agency will no longer accept certifications signed by the County Clerk. We tested one reimbursement in the new grant year and noted that all documentation was included with the reimbursement request. Total expenditures for subrecipients tested that did not have appropriate supporting documentation totaled \$77,918, and the sample tested totaled \$88,224. Total expenditures during fiscal year 2005 prior to the new policy totaled \$690,652.

Cause: The Agency believed the certifications were appropriate supporting documentation. Although they began on-site visits after the prior audit findings were discussed, they did not have the resources to perform on-site visits for all agencies. They have since begun the policy of only accepting invoices for reimbursement requests for the grant that began for the Federal fiscal year beginning in October 2004.

Effect: There is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency continue their policy requiring all subrecipients provide all supporting documentation with their reimbursement requests.

Management Response: This is a moot issue, after the KPMG Audit of 2004; NEMA instituted G.O. 1502, SHSGP, and EMPG Sub-recipient Eligible Costs (copy furnished to Audit staff during the Statewide Single Audit). Established Policy of NEMA for the reimbursement of eligible cost will be on the basis of proper documentation submitted by subrecipients. Without the proper documentation, all grant awards after 1 October 2004 are not considered for reimbursement. The State Auditor's Office did not specify the number of documents tested after the Agency implemented the change recommended by the KPMG audit. The finding was based on State fiscal year - not Federal fiscal year (change was implemented by the Agency 01-Oct-2004). Test documents may have processed 01-Jul-2004 through 01-Oct-2004.

Corrective Action Plan: NEMA will continue to monitor grant programs and reimbursement guidelines and make appropriate changes to G.O. 1502 as needed.

Contact: Deb Simpson, NEMA Budget Manager

Anticipated Completion Date: Ongoing

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Auditor's Response: The Statewide Single audit is performed for the State fiscal year in accordance with OMB Circular A-133. Documents tested that did not have adequate documentation were processed July 1, 2004, through December 28, 2004. The amount of likely questioned costs is based on 2004 grant award expenditures.

Finding #05-31-03

Program: CFDA 97.004/16.007 State Domestic Preparedness Equipment Support and 97.036/83.544 Public Assistance - Subrecipient Monitoring

Federal Grantor Agency: Department of Homeland Security

Criteria: Per OMB Circular A-133, a pass-through entity is responsible for (1) ensuring that subrecipients expending \$500,000 or more in Federal Awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate action on all audit findings. Good internal control requires the Agency to monitor the subrecipients that receive \$500,000 or more in Federal funds to ensure that A-133 audits are completed and submitted to the Agency.

Condition: We noted the Agency did not ensure subrecipients that expended \$500,000 or more in Federal funds had an A-133 audit completed and submitted to the Agency. This finding was noted in the 2004 fiscal year audit. The Agency has since implemented a new policy for the Federal fiscal year ended September 30, 2005. The Agency sent letters dated June 28, 2005, to all subrecipients requesting certification from each subrecipient confirming compliance with A-133 requirements.

Questioned Costs: None

Context: State Domestic Preparedness Equipment Program had four subrecipients that expended \$500,000 or more in Federal funds for fiscal year 2004. We noted two of the four tested did not have an A-133 audit on file. The Agency did not have a system for State Domestic Preparedness Equipment Program and Public Assistance to identify subrecipients requiring an A-133 audit.

Cause: The Agency did not have procedures in place to monitor which subrecipients they had passed through \$500,000 or more in Federal funds.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Effect: The Agency is not in compliance with subrecipient monitoring requirements and is unable to provide assurance that the subrecipients are in compliance with Federal requirements.

Recommendation: We recommend the Agency monitor subrecipients and ensure A-133 audit requirements are met.

Management Response:

Corrective Action Plan: NEMA instituted G.O. 1501, 01-Jun-2005, Sub Contract (Subrecipient) monitoring to put a program in place to monitor all recipients receiving more than \$500,000. Each subrecipient receives a letter advising them of the A-133 requirement.

Contact: Deb Simpson, NEMA Budget Manager

Anticipated Completion Date: Ongoing

Finding #05-31-04

Program: CFDA 97.036/83.544 Public Assistance - Subrecipient Monitoring

Federal Grantor Agency: Department of Homeland Security

Criteria: Per OMB Circular A-133, a pass-through entity is responsible for 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.

Condition: None of the sixteen subrecipients tested had documentation of award notification detailing the CFDA number and title.

Questioned Costs: None

Context: Public Assistance had 101 subrecipients for fiscal year 2005.

Cause: The Agency was unaware of this compliance requirement and did not have procedures in place to ensure the subrecipients were provided with essential award information.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Effect: Proper documentation on the award information ensures that subrecipients are fully informed of their award and granting agency.

Recommendation: We recommend the Agency at the time of the award provide subrecipients the required Federal award information. The CFDA number and title could be applied to a form issued to subrecipients with their application packets.

Management Response: NEMA will amend G.O. 8100, Public Assistance Program, to properly reflect the notification of subrecipients of essential award information. The procedural section of the G.O. will reflect the proper forms and procedures to follow for the disbursements of funds under the program which will include the CFDA number and title in the application packets.

Corrective Action Plan: Review and update G.O. 8100 to be reflective of, and contain the proper documentation and award numbers for, subrecipients.

Contact: Cindy Newsham, NEMA Response and Recovery Supervisor

Anticipated Completion Date: January 30, 2006

Finding #05-31-05

Program: CFDA 12.401 National Guard Military Operations and Maintenance - Cash Management

Federal Grantor Agency: Department of Defense

Criteria: Title 31 CFR 205.33 requires that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes. The timing and amount of funds transferred must be as close as is administratively feasible to a State's actual cash outlay for direct program costs. The CMIA (Cash Management Improvement Act) agreement requires the State shall request Federal funds in accordance with the appropriate cut-off times shown in Exhibit I to ensure funds will be received and credited to a State account by the times specified in the funding techniques. The agreement also requires the State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. Exhibit I specifies a 15 day receipt window on all Federal cash drawdowns.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Condition: 15 of 25 cash draws tested were expended after 18 days (15 day receipt window and 3 day pre-issuance requirement). The Agency did not minimize the time between the drawdown of Federal funds from the Federal government and the disbursement for program purposes.

Questioned Costs: None

Context: We noted the following draws had not been expended within 18 days after the drawdown date:

| Doc. No. | Drawdown Date | Deposit Date | Drawdown Amount | Expended 0 to 18 Days after Drawdown Date | Expended Over 18 Days after Drawdown Date |
|----------|---------------|--------------|-----------------|---|---|
| 61896 | 7/9/2004 | 7/15/2004 | \$ 50,000 | \$ 2,347 | \$ 47,653 |
| 61942 | 7/8/2004 | 7/15/2004 | \$ 50,100 | \$ 1,416 | \$ 48,684 |
| 65136 | 8/5/2004 | 8/24/2004 | \$ 78,336 | \$ 36,686 | \$ 41,650 |
| 65239 | 8/5/2004 | 8/13/2004 | \$ 50,000 | \$ 1,018 | \$ 48,982 |
| 75007 | 11/3/2004 | 11/12/2004 | \$ 171,550 | \$ 64,692 | \$ 106,858 |
| 75014 | 11/3/2004 | 11/12/2004 | \$ 4,167 | \$ 2,216 | \$ 1,951 |
| 81450 | 1/6/2005 | 1/25/2005 | \$ 3,700 | \$ 1,682 | \$ 2,018 |
| 87471 | 3/2/2005 | 3/7/2005 | \$ 11,000 | \$ 358 | \$ 10,642 |
| 93462 | 4/25/2005 | 5/2/2005 | \$ 6,359 | \$ - | \$ 6,359 |
| 94076 | 5/4/2005 | 5/12/2005 | \$ 173,000 | \$ 93,294 | \$ 79,706 |
| 98032 | 6/3/2005 | 6/10/2005 | \$ 7,000 | \$ 1,003 | \$ 5,997 |
| 98047 | 6/3/2005 | 6/16/2005 | \$ 5,278 | \$ 3,946 | \$ 1,332 |
| 99484 | 6/14/2005 | 6/20/2005 | \$ 20,000 | \$ 19,121 | \$ 879 |
| 61893 | 7/9/2004 | 7/14/2004 | \$ 500,000 | \$ - | \$ 500,000 |
| 79738 | 12/20/2004 | 12/23/2004 | \$ 338,098 | \$ 45,063 | \$ 293,035 |

Cause: The Agency tracks expenditures and compares to the budget on a monthly basis.

Effect: The Agency is not in compliance with cash management requirements.

Recommendation: We recommend the Agency comply with the cash management requirements and the CMIA agreement to ensure a minimal amount of time between the federal draw and the disbursement of the funds for program purposes.

Management Response: CMIA requires state and Federal agencies to minimize the time between the drawdown and the subsequent expenditure of Federal funds for Federal program purposes. A state may only drawdown Federal funds in accordance with the time and amounts dictated by the agreed upon funding technique. Drawdowns may not include an extra amount, or occur earlier, to create a balance for the purpose of compensation.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Please confirm that the minimum time allowed is 15 days. Oftentimes Federal funds received may take 7-10 days to be deposited by the State - after request. Also, expenditures such as payroll, may have to coincide with the receipt of other Federal funding in order to process. To date, the USPFO (Federal Fiscal Office) has not required interest to be paid by the State of Nebraska because of an excess of received Federal funds.

The State Auditor's Office forwarded a copy of Exhibit I of the CMIA Agreement between The State of Nebraska and The Secretary of the Treasury, United States Department of the Treasury.

Exhibit I - Funds Request and Receipt Times Schedule for Nebraska

This documentation confirms that the State of Nebraska Army and Air National Guard should receive Federal funds in the State of Nebraska within 15 days of request. This does not reference a specified expenditure time limit.

The CMIA Agreement states the amount of the request shall be the amount the State expects to disburse.

The Army and Air National Guard are not listed in Exhibit II - Average Clearance Patterns, and will therefore exercise all efforts to minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes.

Corrective Action Plan: It is the consensus of the Military Department that Finding #05-31-05 be deleted from final reporting. CMIA Agreement language does not stipulate that Federal funds be expended within 15 days.

Contact: Shawn D. Fitzgerald, Agency Controller

Anticipated Completion Date: Ongoing Action

Auditor's Response: As stated above, Title 31 CFR 205.33 requires that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes. The CMIA Agreement also requires the State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The Agency is not in compliance with cash management requirements.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Finding #05-31-06

Program: CFDA 97.036/83.544 Public Assistance - Allowability/Cost Principles

Federal Grantor Agency: Department of Homeland Security

Criteria: The allowed activities for the Public Assistance program are for the approved project as described on the Project Worksheet and supporting documentation. The OMB Circular A-87 states costs must be reasonable and necessary for the performance and administration of Federal awards and must be adequately documented. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

Condition: Money received by the Agency for Public Assistance from the Federal Emergency Management Agency (FEMA) for administrative costs such as travel, per diem, and overtime reimbursements that is unspent is transferred to the Governor's Emergency Fund to be used for all disasters; however, there was no documentation to support the transfers were used for allowable expenditures.

Questioned Costs: \$29,932 known; \$144,523 likely

Context: Agency transfers of Grantee Administration Funds to the Governor's Emergency Fund totaled \$144,523 for fiscal year 2005. One transfer was tested totaling \$29,932.

Cause: The Agency indicated that per past practice from FEMA and the reading of 44 CFR, Section 206, Grantee Administrative Costs, this had been the accepted policy for the management of Grantee Administrative Costs. The Agency has been awaiting new Federal policy addressing this issue and to date has not received. The Agency stated that in October 2004, they initiated an internal policy for new disasters to only draw actual supported administrative costs such as overtime, per diem, travel, and other documented administrative expenses.

Effect: Increased risk of unallowable activities and misuse of Federal funds.

Recommendation: We recommend the Agency internally formalize their established policy of October 2004; drawing Administrative funds for actual expenses in support of State disaster response upon closeout of a Federal disaster.

Management Response: Effective 2004, NEMA instituted the "unofficial policy" of FEMA in the drawdown of State Administrative Funds for current open disasters. Pursuant to statute, these administrative funds are credited to the Governor's

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Emergency Fund to cover disaster-related administrative expenditures. The statement “any unspent grant funds should be remitted back to the Federal government” is unclear and does not give guidance as to what funds this statement is addressing.

44 CFR 206.228 *Allowable Costs* authorizes states an allowance to cover the extraordinary costs that are incurred when formulating Project Worksheets for small and large projects, to validate small projects, to prepare final inspection reports, project applications, final audits, and to make related field inspections by state employees. Eligible costs include overtime pay, per diem and travel expenses, but do not include regular payroll for employees. The allowance is based upon a formula associated with the total proposed disaster expenditure.

44 CFR, as a stand alone document, only exempts and prohibits regular time for employees as an allowable cost. The language in and of itself gives overtime, per diem, and travel expenses as examples of allowable costs but in and of itself does not limit the allowable administrative costs to these categories. Established practice of all states has been to take the full administrative allowance at the close of a disaster. NEMA would pose the question, would not state audit costs of the public assistance program be an allowable administrative cost? If limits are set for overtime, per diem, and travel, then all audit costs would be a 100% generally funded expenditure.

Specific guidance as to what is an allowable administrative cost has been at the forefront of conversations between state emergency management agencies and FEMA for the past several years. States have asked for a clear interpretation from FEMA of this section of 44 CFR and to date have not received an “official” interpretation.

NEMA, internally, made the decision in October 2004 to only take the administrative costs that were directly supported by overtime, per diem, travel, and other direct State costs - excluding regular salary for the administrative support of the public assistance program under a specific Federal disaster. The public assistance program direct costs, in support of State disaster response at the time of a Governor’s declaration of emergency, have always been paid out of the Governor’s Emergency Fund. When the disaster is closed, NEMA takes only the administrative allowance based upon overtime, per diem, and travel expenses. This decision was made internally based upon anticipated Federal guidance.

Administrative costs received from a Federal disaster are credited to the Governor’s Emergency Fund per Neb. Rev. Stat. Section 81-829.58 R.R.S., Emergency management; supplies and services from Federal government funds; disposition. All such funds received on behalf of the State shall be remitted to the State Treasurer for

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

credit to the Governor's Emergency Fund. Administrative costs received now only reimburse expenses directly incurred and paid for in support of State disaster response.

Corrective Action Plan: Implementation is based upon implied Federal guidance yet to be received. This has been an identified issue at the State/Federal level since 2000 and to-date no guidance has been received.

Contact: Al Berndt, NEMA

Anticipated Completion Date: Ongoing Action

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #05-65-02

Program: Various

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

Summary: The audit finding included in Part II of this report regarding general computer controls relates to both the financial statements and Federal awards. As NIS is the official accounting system of the State, this finding relates to all Federal programs (other than non-monetary assistance such as food commodities) awarded to the State of Nebraska. The major programs are listed in Part I of this report. The Health and Human Services System (HHSS) also utilizes NFOCUS to administer various Federal programs including the Medicaid Cluster, Temporary Assistance to Needy Children, Foster Care Assistance, Adoption Assistance and the Child Care Cluster. HHSS utilizes NFOCUS and CHARTS to administer the Child Support Enforcement Program.

Management Response:

Corrective Action Plan: The Chief Information Officer, in cooperation with the Nebraska Information Technology Commission and its Councils, will address the deficiencies identified in the contractor's report with each agency affected. Additionally, common themes and/or issues that may indicate the need for Statewide direction and/or policy will be identified and addressed. NITC policy standards will be created as needed.

Contact: Brenda Decker

Anticipated Completion Date: The corrective action will be continuous and ongoing.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #05-84-01

Program: CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Fund and 66.458 Capitalization Grants for Clean Water State Revolving Fund - Subrecipient Monitoring

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per OMB Circular A-133, a pass-through entity is responsible for the following:

- *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; and
- *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 has not performed the following:

- 1) Obtained all required A-133 reports from Subrecipients,
- 2) Reviewed A-133 reports, and
- 3) Followed up on findings and related corrective action.

Questioned Costs: None

Context: The Agency did not obtain all required A-133 reports from subrecipients, review the A-133 reports, or follow up on findings and related corrective action. The Agency has obtained A-133 single audit reports from subrecipients; however, they have not been reviewed since 2002 and the Agency does not have controls in place to ensure they have received all the reports. The Agency does perform on-site and desk reviews to

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

monitor their subrecipients' annual activity, but does not ensure proper follow up is conducted on the subrecipients' A-133 single audit reports. During fiscal year 2005, 27 subrecipients received \$11,289,690 from the Drinking Water program. Of these 27 subrecipients, seven received more than \$500,000. During fiscal year 2005, 16 subrecipients received \$8,477,178 from the Clean Water program. Of these 16 communities, six received more than \$500,000.

Cause: The Agency has not been able to properly review single audit reports.

Effect: The Agency is not in compliance with subrecipient monitoring requirements and is unable to provide assurance that 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, reviewed, and appropriate action is taken on any findings noted within time requirements.

Management Response:

Corrective Action Plan: Implemented

Contact: Bart Moore

Anticipated Completion Date: Completed

Finding #05-84-02

Program: CFDA 66.468 FSR Reporting for Drinking Water State Revolving Fund - Reporting

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Sound accounting practice requires supporting documentation agree to the required Federal reports submitted.

Condition: One of two financial status reports tested did not agree to NIS and supporting documentation.

Questioned Costs: None

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Context: The financial status report for grant #FS997805-02 for the Federal fiscal year ended September 30, 2004, did not agree to supporting documentation. The cumulative amount reported was accurate, but the Federal share was understated and the State share was overstated by \$315,685.

Cause: The report submitted for the period ended September 30, 2004, had incorrect beginning balance numbers which were calculated by an employee who had quit. The numbers were relied on without verifying the amounts.

Effect: This resulted in inaccurate reporting on the financial status reports.

Recommendation: We recommend the Agency ensure the amounts reported on the financial status reports agree to NIS and supporting documentation.

Management Response:

Corrective Action Plan: Implemented

Contact: Bart Moore

Anticipated Completion Date: Completed

STATE OF NEBRASKA

Summary Schedule of Prior Audit Findings

| Reference | Finding | Status | Contact Person |
|---|---------------------------------|--|---------------------------------|
| DEPARTMENT OF LABOR | | | |
| 04-23-01 | Allowable Costs/Cost Principles | Corrected December 2005. | Becky Tejral & Kay Marti |
| HEALTH AND HUMAN SERVICES SYSTEM | | | |
| 04-26-01 03-26-01 | Eligibility | Repeated. See finding 05-26-04. | Margaret Bitz & Ruth Grosse |
| 04-26-02 03-26-04 | Subrecipient Monitoring | Repeated with changes. See finding 05-26-07. | Larry Morrison |
| 04-26-03 | Special Tests and Provisions | Corrected October 2005. | Deb Steidley |
| 04-26-04 | Special Tests and Provisions | Corrected. Procedures updated to perform bi-annual risk assessment. The FY 2004-2005 fiscal year risk assessment was completed and documented on August 31, 2005. The second bi-annual risk assessment is scheduled for February 2006. | Pat Darnell-Cass & Allan Albers |
| 04-26-05 | Allowable Costs/Cost Principles | Repeated. See finding 05-26-03. | Betty Medinger |
| 04-26-06 | Subrecipient Monitoring | Repeated. See finding 05-26-09. Agency and U.S. Department of Agriculture believe the Agency is in compliance. | Julia West |
| 04-26-07 | Allowable Costs/Cost Principles | Repeated. See finding 05-26-14. Starting in January 2006, a report is generated two times a year for Administrators to follow up with Supervisor to ensure that corrective action is taken. | George Kahlandt |
| 04-26-08 02-26-08 | Earmarking | Repeated. See finding 05-26-13. Believes federal guidance needs clarifying. Submitted public comment to OMB suggesting changes to the OMB A-133. | Rayma Delaney |
| 04-26-09 | Reporting | Corrected March 2005. | Larry Morrison |

STATE OF NEBRASKA

Summary Schedule of Prior Audit Findings

| Reference | Finding | Status | Contact Person |
|--|--|---|------------------|
| DEPARTMENT OF MILITARY | | | |
| 04-31-01 | Allowable Costs/Cost Principles | Repeated with changes. See finding 05-31-01. | Shawn Fitzgerald |
| 04-31-02 03-31-01 | Allowable Costs/Cost Principles | Repeated with changes. See finding 05-31-01. | Shawn Fitzgerald |
| 04-31-03 | Period of Availability | Corrected April 2005. | Shawn Fitzgerald |
| 04-31-04 03-31-02 02-31-01 | Subrecipient Monitoring | Repeated. See finding 05-31-02. Corrected for grants that began after October 1, 2004. | Shawn Fitzgerald |
| DEPARTMENT OF ADMINISTRATIVE SERVICES | | | |
| 04-65-01 | Not reconciling bank accounts to accounting system | Repeated with changes. See finding 05-65-01. Amounts between banks and books have been reconciled to a consistent variance for June, July, and August 2005. Accurate monthly reconciliations will continue. | Paul Carlson |
| DEPARTMENT OF ENVIRONMENTAL QUALITY | | | |
| 04-84-01 | Reporting | Corrected December 2004. Required reports have been submitted. | Bart Moore |
| 04-84-02 03-84-03 | Subrecipient Monitoring | Repeated. See finding 05-84-01. Corrected for fiscal year 2006. Policies and procedures written April 2005. Single Audit Reports are now reviewed on a timely basis. | Bart Moore |
| 04-84-03 | Reporting | This is an interpretation issue and the agency continues to work with EPA to resolve issue. | Bart Moore |
| 04-84-04 | Reporting | Repeated. See finding 05-84-02. Corrected for 2002 grant as reconciliation was completed in December 2004. | Bart Moore |