

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF AERONAUTICS
JULY 1, 1998 THROUGH JUNE 30, 1999**

NEBRASKA DEPARTMENT OF AERONAUTICS

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NEBRASKA DEPARTMENT OF AERONAUTICS

BACKGROUND

The Department is composed of a Director, Staff, and the Nebraska Aeronautics Commission.

COMMISSION: The Nebraska Aeronautics Commission was originally established in 1935. It is a five member Commission appointed by the Governor, and each member serves for five years. One Commission member is appointed or reappointed each year in March. The members of the Commission receive no salary but are reimbursed for their actual expenses.

The Commission's primary functions are:

1. Allocate State funds and approve the use of Federal funds to be spent for the construction or maintenance of airports.
2. Designate the location and approve the sites of airports.
3. Arrange and authorize the purchase of aircraft on behalf of the State.
4. Select and approve pilots to be employed by the State.
5. Assist the Director in formulating the regulations and policies to be carried out by the Department under the terms of the State Aeronautics Department Act.

DEPARTMENT OPERATIONS: The Nebraska Department of Aeronautics was created in 1945 to provide for the development and regulation of transportation by aircraft and the closely-related areas of airports and air navigation aids. The Governor appoints the Director, subject to confirmation by the Legislature. The Director serves at the will of the Governor and the salary is fixed by the Governor. The Director's primary duties are:

1. Serve as administrative officer of the department.
2. Administer the statutes, rules, and regulations of the State relative to aeronautics.
3. Serve as secretary for the Nebraska Aeronautics Commission (no voting ability).
4. Appoint department staff pursuant to appropriations approved by law.
5. Manage the offices of the department, and collect and report information to the Commission and public related to aeronautics.
6. Execute all contracts to which the department is legally authorized to enter into.

To accomplish its responsibilities, the Department is organized into five divisions. They are: Administration, Operations, Navigational Aids, State-owned Airfields, and Engineering. The functions of the Department are as follows by division:

Administration:

9 employees

- a. Budget and account for the funds of the department.
- b. Provide clerical support for the other department divisions.
- c. Keep current regarding State and Federal legislative and regulatory matters and legal issues which affect aviation in Nebraska.
- d. Coordinate policy matters with the Aeronautics Commission.
- e. Coordinate department activities with other State and local agencies.

NEBRASKA DEPARTMENT OF AERONAUTICS

BACKGROUND

(Concluded)

Operations:

5 employees

- a. Participate in Aerospace Education efforts in the State, including the Nebraska Aviation Art Contest.
- b. Publish a monthly Aviation Newsletter entitled "Pireps."
- c. Publish biennially a State Aeronautical Chart and State Airport Directory.
- d. Operate Department Aircraft, and provide air transportation for the Governor and state officials.
- e. Register and license public-use airports.
- f. Coordinate air activities in support of the State Civil Defense Agency in time of National disaster or National emergency.
- g. License and regulate agricultural aerial applicators operating in the state.

Navigational Aids:

6 employees

- a. Install and maintain electronic navigational aids throughout the state that supplement the Federal Aviation Administration (FAA) system of navigational aids and enhance the ability of individuals and businesses to use aviation in Nebraska.
- b. Install and maintain airport rotating beacons.
- c. Install and maintain state-owned AWOS (Automated Weather Observation Systems).

State-Owned Airfields:

6 employees

- a. Manage the state-owned airfields at Fairmont, Harvard, and Scribner.
- b. Coordinate crack/joint sealing and pavement marking on public-use airports.

Engineering:

5 employees

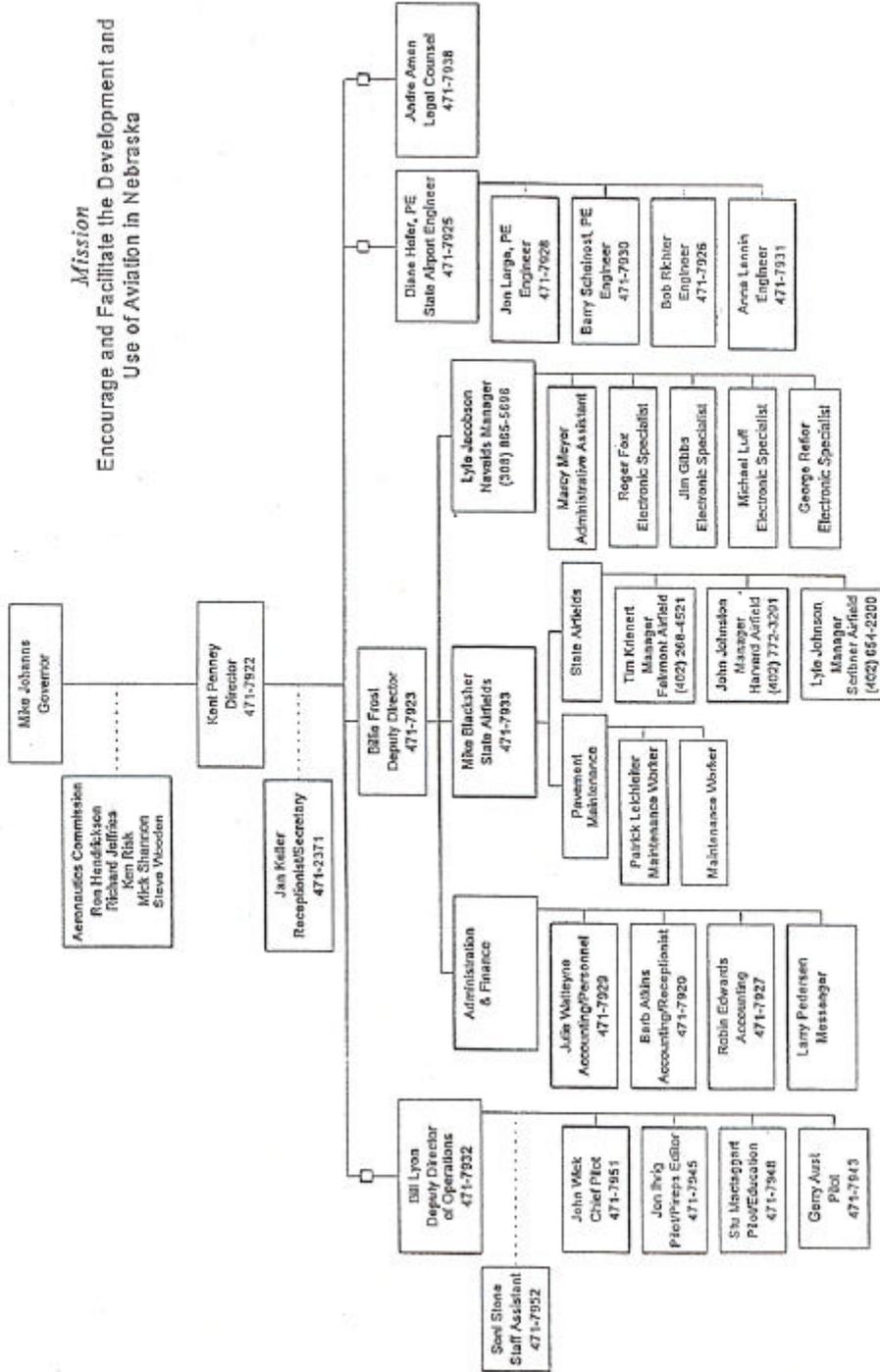
- a. Assist and advise airports regarding planning, construction, and development.
- b. Administer state and federally-funded projects.
- c. Supervise construction of certain projects, including state-funded pavement maintenance projects (i.e. Slurry Seal).
- d. Inspect public-use airports for safety and pavement condition.
- e. Review construction proposals that may impact airports, and assist on local zoning matters. This particularly deals with height restrictions and towers.

MISSION STATEMENT

Encourage and facilitate the development and use of aviation in Nebraska.

Nebraska Department of Aeronautics Organization Chart

Revised — March 10, 2000



Web Site <http://www.nol.org/home/INDOA>

Main Phone 471-2371

All Phone Numbers area code (402) unless otherwise indicated

Conference Room Phone 471-7910

NEBRASKA DEPARTMENT OF AERONAUTICS

SUMMARY OF COMMENTS

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

1. ***Internal Control Over Fixed Assets:*** One person had the ability to maintain all aspects of the fixed asset records. The Department also did not have a written policy for keeping track of fixed assets.
2. ***Reappraisal of Real Property:*** State Statutes require certain real property held by the Department to be reappraised every five years. An appraisal was done in 1984, before entering into a 12-year lease on the property, and an appraisal was not done again until 1997.

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

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

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

NEBRASKA DEPARTMENT OF AERONAUTICS

COMMENTS AND RECOMMENDATIONS

1. **Internal Control Over Fixed Assets**

During our audit of the fixed assets, we noted the same person maintained the fixed asset records, added items to the list, prepared surplus forms, deleted items from the list, and either performed or coordinated the annual physical inventory. There was no procedure for a review by another employee to ensure errors were not made. We also noted the Department did not have a written policy regarding what items should be included on the fixed asset listing.

Good internal control requires a segregation of duties or a compensating control. A fixed asset policy should be adopted and documented to ensure consistency and avoid confusion.

Lack of segregation of duties increases the risk of undetected errors or loss. Our test of six disbursements for fixed assets noted one of the six, a computer, had not been added to the list. Without a written policy, record keepers do not know what type of items management wants to include on the fixed asset list. We noted the list included items with purchase costs as low as \$5.

We recommend the Department implement procedures to segregate duties or provide an independent review to ensure all purchases are added and the correct items are deleted. We also recommend a policy be determined and documented regarding the type and dollar amount of items to be maintained on the fixed asset list. The present list should be brought into compliance with the policy.

DEPARTMENT'S RESPONSE: THE DEPARTMENT WILL BE REVIEWING OUR INVENTORY LISTING AND WILL FOLLOW MATERIAL'S RECOMMENDATION OF \$1,500 OR MORE FOR INVENTORIED ITEMS. THE DEPARTMENT WILL PREPARE A WRITTEN INVENTORY POLICY.

2. **Reappraisal of Real Property**

State Statute Section 3-157, R.R.S., 1997, regarding real property held by the Department and formerly used by the United States as army airfields, and which is not required for airport operational use purposes, states, in part, “. . . a reappraisal shall be made at least once every five years.”

During our audit, it was determined real property held by the Department was first appraised in 1984, prior to entering into a 12-year property lease. This real property was not reappraised again until 1997.

We recommend the Department comply with the above cited State Statute, and, if desired, work with the Legislature to have the Statute revised.

DEPARTMENT'S RESPONSE: WE WILL COMPLY WITH THE STATUTES UNTIL SUCH TIME AS WE DECIDE TO REVIEW THE STATUTES.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF AERONAUTICS

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Aeronautics as of and for the fiscal year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 provides a reasonable basis for our opinion.

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

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Aeronautics, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Aeronautics as of June 30, 1999, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 16, 2000, on our consideration of the Nebraska Department of Aeronautics' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Julia Peralez CPA". The signature is written in a cursive style.

June 16, 2000

Manager

NEBRASKA DEPARTMENT OF AERONAUTICS
STATEMENT OF ASSETS AND FUND BALANCES AND OTHER CREDITS
ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE AND NONEXPENDABLE TRUST FUND TYPES
AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 1999

	Governmental	Fiduciary	Account Group	
	Fund Type	Fund Type	General	Totals
	Special	Nonexpendable	Fixed	(Memorandum
	Revenue	Trust	Assets	Only)
Assets				
Cash in State Treasury	\$ 5,434,544	\$ -	\$ -	\$ 5,434,544
Investments	-	6,396,299	-	6,396,299
Deposit with Vendors	3,102	-	-	3,102
Property, Plant, and Equipment	-	-	2,235,821	2,235,821
Total Assets	\$ 5,437,646	\$ 6,396,299	\$ 2,235,821	\$ 14,069,766
Fund Balances and Other Credits				
Other Credits,				
Investment in Fixed Assets	\$ -	\$ -	\$ 2,235,821	\$ 2,235,821
Fund Balances:				
Reserved for:				
Endowment Principal	-	6,396,299	-	6,396,299
Vendor deposits	3,102	-	-	3,102
Unreserved, Undesignated	5,434,544	-	-	5,434,544
Total Fund Balances and Other Credits	\$ 5,437,646	\$ 6,396,299	\$ 2,235,821	\$ 14,069,766

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF AERONAUTICS
**STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 1999

	Governmental Fund Types		Fiduciary Fund type	Totals (Memorandum Only)
	General	Special Revenue	Nonexpendable Trust	
RECEIPTS:				
Appropriations	\$ 36,361	\$ -	\$ -	\$ 36,361
Aviation Fuel Tax	-	1,674,202	-	1,674,202
Intergovernmental:				
Federal Aid/Reimbursement	-	11,235,612	-	11,235,612
Reimbursement from Local Government	-	110,060	-	110,060
Sales and Charges:				
Sale of Serviceable Supplies & Materials	-	91,669	-	91,669
Other	-	807	-	807
Miscellaneous:				
Investment Interest	-	326,967	574,523	901,490
Gain/(Loss) on Sale of Investments	-	-	41,419	41,419
Appr/(Depr)-Fair Value of Investments	-	-	(383,958)	(383,958)
Land Use Revenue	-	169,516	-	169,516
Building & Space Rental	-	110,278	-	110,278
Equipment Lease or Rental	-	434,388	-	434,388
Other	-	6,178	-	6,178
TOTAL RECEIPTS	36,361	14,159,677	231,984	14,428,022
DISBURSEMENTS:				
Personal Services	-	1,233,873	-	1,233,873
Operating	5	947,172	1,187	948,364
Travel	-	94,100	-	94,100
Capital Outlay	-	251,076	-	251,076
Government Aid	36,356	12,609,157	-	12,645,513
TOTAL DISBURSEMENTS	36,361	15,135,378	1,187	15,172,926
Excess of Receipts Over (Under) Disbursements	-	(975,701)	230,797	(744,904)
OTHER FINANCING SOURCES (USES):				
Sales of Buildings	-	316,590	-	316,590
Sale of Fuel Storage	-	48,149	-	48,149
Sale of Other Assets	-	10,854	-	10,854
Operating Transfers In	-	549,898	-	549,898
Operating Transfers Out	-	(33,554)	(516,344)	(549,898)
Net Distributive Activity:	-	(33)	-	(33)
TOTAL OTHER FINANCING SOURCES (USES)	-	891,904	(516,344)	375,560
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(83,797)	(285,547)	(369,344)
FUND BALANCE, JULY 1, 1998	-	5,521,443	6,681,846	12,203,289
FUND BALANCE, JUNE 30, 1999	\$ -	\$ 5,437,646	\$ 6,396,299	\$ 11,833,945

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF AERONAUTICS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 1999

	GENERAL FUND			CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations	\$ 36,361	\$ 36,361	\$ -	\$ -	\$ -	\$ -
Aviation Fuel Tax	-	-	-	1,600,000	1,674,202	74,202
Intergovernmental:						
Federal Aid/Reimbursement	-	-	-	19,865,049	11,235,612	(8,629,437)
Reimbursement from Local Government	-	-	-	104,615	110,060	5,445
Sales and Charges:						
Sale of Serviceable Supplies & Materials	-	-	-	108,300	91,669	(16,631)
Other	-	-	-	72	807	735
Miscellaneous:						
Investment Interest	-	-	-	302,000	326,967	24,967
Land Use Revenue	-	-	-	169,354	169,516	162
Building and Space Rental	-	-	-	110,000	110,278	278
Equipment Lease or Rental	-	-	-	531,842	434,388	(97,454)
Other	-	-	-	9,203	6,178	(3,025)
TOTAL RECEIPTS	<u>36,361</u>	<u>36,361</u>	<u>-</u>	<u>22,800,435</u>	<u>14,159,677</u>	<u>(8,640,758)</u>
DISBURSEMENTS:						
Personal Services	-	-	-	1,404,449	1,233,873	170,576
Operating	6	5	1	1,609,200	947,172	662,028
Travel	-	-	-	108,879	94,100	14,779
Capital Outlay	-	-	-	905,378	251,076	654,302
Government Aid	39,132	36,356	2,776	20,073,227	12,609,157	7,464,070
TOTAL DISBURSEMENTS	<u>39,138</u>	<u>36,361</u>	<u>2,777</u>	<u>24,101,133</u>	<u>15,135,378</u>	<u>8,965,755</u>
Excess of Receipts Over (Under) Disbursements		-			(975,701)	
OTHER FINANCING SOURCES (USES):						
Sale of Buildings		-		327,288	316,590	(10,698)
Sale of Fuel Storage		-		45,117	48,149	3,032
Sale of Other Assets		-		17,768	10,854	(6,914)
Operating Transfers In		-		539,187	549,898	10,711
Operating Transfers Out		-		-	(33,554)	(33,554)
Net Distributive Activity		-		-	(33)	(33)
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>		<u>929,360</u>	<u>891,904</u>	<u>(37,456)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			(83,797)	
FUND BALANCES, JULY 1, 1998		-			5,521,443	
FUND BALANCES, JUNE 30, 1999		<u>\$ -</u>			<u>\$ 5,437,646</u>	

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 1999

1. **Summary of Significant Accounting Policies**

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

- A. **Reporting Entity.** The Nebraska Department of Aeronautics (the Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

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

- B. **Basis of Accounting.** The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental fund types and the accrual basis for nonexpendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting revenues are recognized when earned and expenditures are recognized when the liability is incurred.
- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

accounts which record receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government which are not accounted for in any other fund.

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

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

D. Budgetary Process. The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. 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 appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one 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 Department of Administrative Services Accounting Division.

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

All State budgetary disbursements for the general and cash fund types are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Cash fund expenditures are not limited to the amount of the appropriation for the Nebraska Department of Aeronautics.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 1999, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of revenue and expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report.

There are no annual budgets prepared for Trust Funds and, as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 1999, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES	
	Total	PRIMARY GOVERNMENT	
		Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:			
Classifications of budgetary fund balances into Financial Statement fund structure:			
Cash	\$ 5,437,646	\$ 5,437,646	\$ -
Budgetary fund balances classified into Financial Statement fund structure	\$ 5,437,646		
Entity Difference:			
Record funds not budgeted		-	6,396,299
Financial Statement Fund Balances, June 30, 1999		\$ 5,437,646	\$ 6,396,299

E. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds and the related assets are reported in the general fixed assets

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets on hand as of June 30, 1999, have been recorded at cost or estimated cost by the Department. Generally, equipment which has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure such as state airport paving and lighting, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. Cash Fund 2171 of the Department was designated for investment during fiscal year 1999.
- G. Net Distributive Activity.** Net Distributive Activity transactions would be those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency or are deposits which will be returned on completion of some specified requirement.
- H. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- I. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the 'receipts and disbursements basis of accounting' the balances which would be reported in the Long Term Debt Account Group are not reported as they do not represent balances arising from Cash Transactions.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

J. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Taxes. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. This consists of Aviation Fuel Tax.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. This is primarily receipts from the federal Airport Improvement Program.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous. Receipts from sources not covered by other major categories. This is primarily investment income/loss and rental of land, building and equipment.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character owned or held by the government.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Government Aid. Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

L. Fund Balance Reservations. Reservations of fund balance are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balance are also established for assets which are not current in nature, such as postage deposits.

M Investments – Aeronautics Trust Fund 6170. Investments represent long-term investments which are invested by the State Investment Officer in accordance with State Statute Section 72-1247, R.R.S. 1996. The Department’s investments are categorized to give an indication of the level of custodial risk assumed by the Department at year-end. Category 1 includes investments that are insured, or registered, or the securities are held by the State or its agent in the State’s name. The investments if the Department are categorized as Category 1 or not categorized as required by Governmental Accounting Standards statement number 3.

The fair value of the trust fund investments at June 30, 1999, are set forth below:

Investments – Category 1		
U.S. Government Securities	\$	6,085,162
Not Categorized		
Pooled Investment contracts		311,137
Total	\$	<u>6,396,299</u>

State Statute Section 72-1247, R.R.S. 1996, authorizes the State Investment Officer to participate 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 Trust’s custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. At year-end, the Trust had no credit risk exposure to borrowers because the amounts the Trust owes the borrowers exceed the amounts the borrowers owe the Trust. The collateral securities cannot be pledged or sold by

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

the Trust 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.

Generally, either the Trust or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 61 and 76 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 Trust by the contract with the custodian. At June 30, 1999, there was \$1,657,167 on securities loan.

2. **Totals**

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

3. **Nebraska Department of Aeronautics Trust Fund 6170**

The fund balance in the Trust Fund represents the proceeds from the sale of land which the Federal Government distributed to the State (see Schedule). These proceeds are invested and gains and losses on the sale of investments are principal transactions which are added or subtracted from the Trust Fund balance. The interest earned on the balance is transferred to the Department's cash fund for Department operations.

4. **Miscellaneous Receipts, Operating Disbursements, and Operating Transfers Out - Trust Fund 6170**

Trust Fund 6170 is a common fund with the State Treasurer. Miscellaneous Receipts reflect amounts received by the State Treasurer and Operating Disbursements reflect amounts charged by the Nebraska Investment Council. Operating Transfers Out reflect amounts transferred to the Department's cash fund by the State Treasurer.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Accounts and Loans Receivable**

The Special Revenue Fund Balance (Fund 2171) as of June 30, 1999, does not include the following accounts receivable:

Hangar Revolving Fund Loans		
(Due from public use airports)	\$	2,688,348
Fuel Farm Revolving Fund Loans		
(Due from public use airports)		253,712
Spray Apron Revolving Fund Loans		
(Due from public use airports)		13,492
State Aircraft Rental Charges		
(Due from other State Agencies)		40,167
Other Accounts Receivable		
(Due from and/or advance payments from various sources)		(677)
TOTAL	\$	<u>2,995,042</u>

6. **Loan Repayment Schedules**

The Department loans funds to public use airports for the construction of aircraft storage hangars (“hangar” loans), fuel storage facilities (“fuel farm” loans) or chemical containment areas (“spray apron” loans). Loaned funds are not scheduled (unscheduled) for repayment until the structure at the public use airport is completed.

Upon completion, the Department assumes title to the structure. The public use airport must contract to lease the structure from the Department. Lease contracts normally have a term of seven to fifteen years for hangars, not more than ten years for fuel farms, and five years for spray aprons. The scheduled lease payments will equal the amount loaned to the public use airport. At the end of the lease term, the public use airport assumes title to the structure.

Loans due to the Department as of June 30, 1999, are as follows:

Fiscal Year Ending	“Hangar Loans”	“Fuel Farm Loans”	“Spray Apron Loans”
June 30, 2000	\$ 311,806	\$ 47,499	\$ 9,508
June 30, 2001	299,127	45,873	3,984
June 30, 2002	269,366	42,717	-
June 30, 2003	242,391	39,367	-
June 30, 2004	238,060	22,242	-
After June 30, 2004	1,291,109	47,666	-
Unscheduled	36,489	8,348	-
TOTAL	\$ <u>2,688,348</u>	\$ <u>253,712</u>	\$ <u>13,492</u>

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.
5. In addition to the above coverage, The Department has obtained insurance for its aircraft and the state-owned airfields. For aircraft, single limit bodily injury and property damage coverage is \$20,000,000 each occurrence. Medical expenses coverage is \$5,000 each person, and physical damage coverage for the aircraft is insured value less deductibles. Airfield insurance is limited to \$1,000,000 each for general aggregate limit, products-completed operations aggregate limit, and each occurrence limit. Medical expense limit is \$5,000 any one person.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters would be funded

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Aeronautics' financial statements.

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

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended through legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

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

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 1999, employees contributed \$37,790 and the Department contributed \$58,952.

9. **Net Distributive Activity**

The Department's net distributive activity for the audit period consists of sales tax.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1998	Additions	Retirements	Balance June 30, 1999
Equipment	\$ 2,221,267	\$ 41,816	\$ 27,262	\$ 2,235,821

11. Full Accountability of the General Fund

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

General Fund

Beginning (Reappropriated) Balance July 1,	\$ 6,738
New Appropriations	<u>32,400</u>
Total Appropriations	39,138
Disbursements	(36,361)
Lapse of Appropriations	<u>(2,777)</u>
Ending (Appropriations) Balance June 30,	<u><u>\$ 0.00</u></u>

12. Support Services Provided

The Governor's Office has historically received support services from code agencies directly under its control. The Nebraska Department of Aeronautics is a code agency.

As required by State Statute Section 3-106, R.R.S. 1997, the Nebraska Department of Aeronautics provides air transportation for the Governor's Office at the Department's expense.

As of July 1, 1995, any air transportation services exceeding \$32,500 during a fiscal year which were provided by the Department have been paid from the Governor's Office budget.

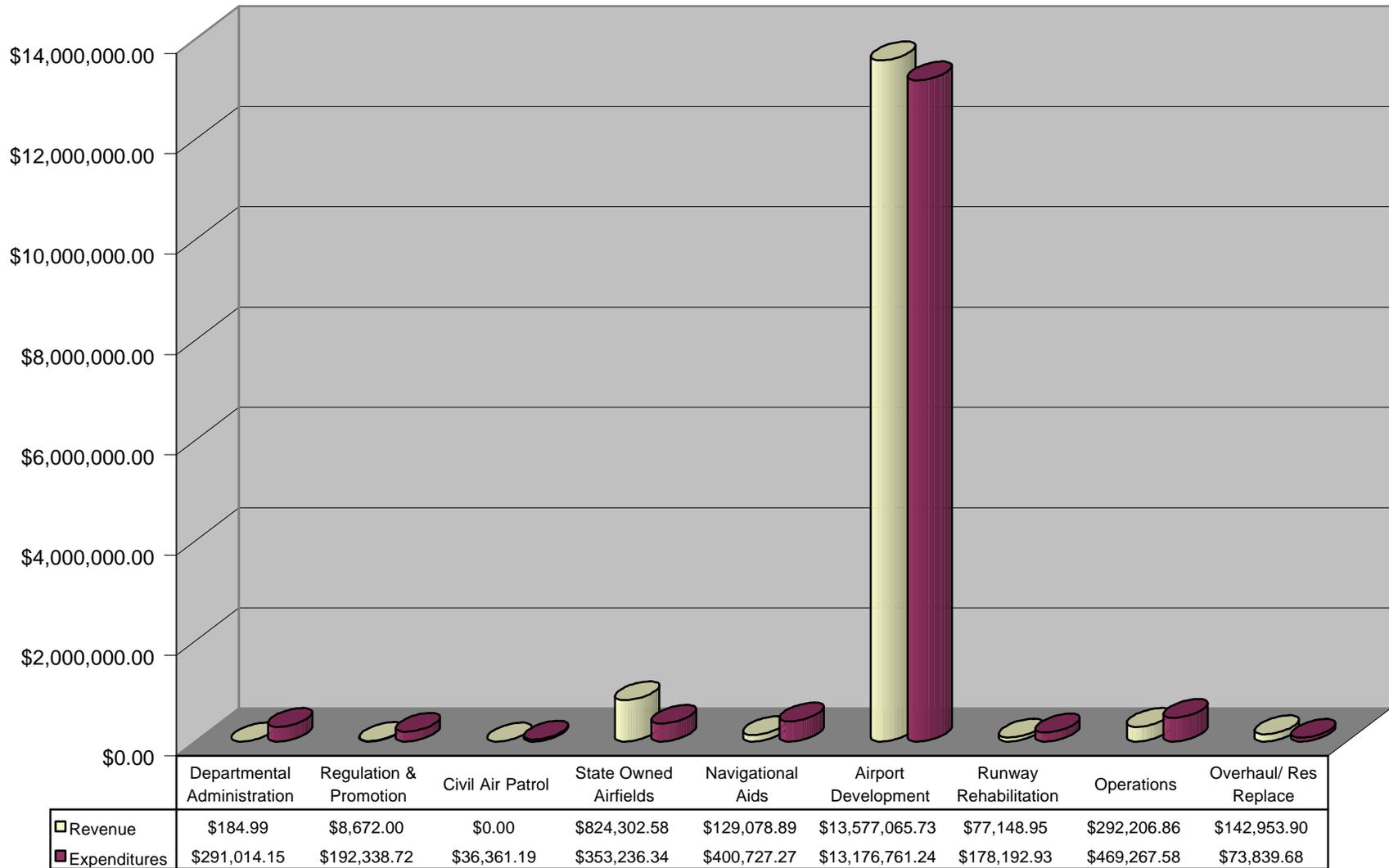
NEBRASKA DEPARTMENT OF AERONAUTICS
SCHEDULE OF STATE-OWNED AIRFIELD LANDS AND CHANGES IN TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Harvard Airfield	Fairmont Airfield	Scribner Airfield	McCook	Bruning	Total
Acres owned by Aeronautics as of July 1, 1998	497	517	713	-	526	2,253
Less: Acres sold during Fiscal Year 1999	-	-	-	-	-	-
Acres Owned By Aeronautics As of June 30, 1999	<u>497</u>	<u>517</u>	<u>713</u>	<u>-</u>	<u>526</u>	<u>2,253</u>
Composition of Acres Owned:						
Operational Area	497	517	713	-	-	1,727
Acres for Sale (A)	-	-	-	-	526	526
Total	<u>497</u>	<u>517</u>	<u>713</u>	<u>-</u>	<u>526</u>	<u>2,253</u>

	Harvard Airfield	Fairmont Airfield	Scribner Airfield	McCook	Bruning	Gain on Sale of Investments	Total
Proceeds from the Sale of Land As of July 1, 1998	\$ 1,199,580	\$ 884,639	\$ 2,129,365	\$ 825,709	\$ 839,464	\$ 860,081	\$ 6,738,838
Gain(loss) on Sale of Investments During FY 99	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (342,539)	\$ (342,539)
Proceeds from the Sale of Land as of June 30, 1999	<u>\$ 1,199,580</u>	<u>\$ 884,639</u>	<u>\$ 2,129,365</u>	<u>\$ 825,709</u>	<u>\$ 839,464</u>	<u>\$ 517,542</u>	<u>\$ 6,396,299</u>
Appraised Value of Unsold Acres, 526 Feedlot Acres (Last Appraised in 1997)					<u>\$ 555,000</u>		

(A) The appraised value of the unsold acres refers only to the acres available for the sale and does not include the operational area. The value is for the land "as - if vacant" - not including tenant owned improvements.

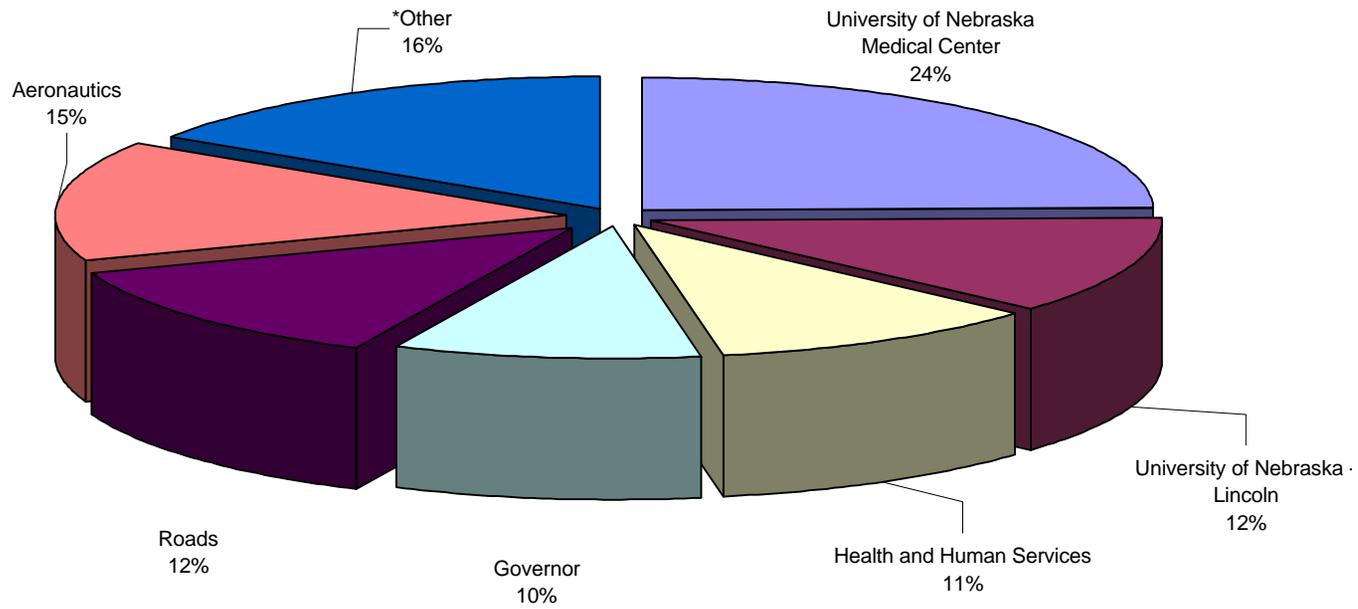
NEBRASKA DEPARTMENT OF AERONAUTICS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS BY SUB-PROGRAM
 For the Fiscal Year Ended June 30, 1999



NEBRASKA DEPARTMENT OF AERONAUTICS
SCHEDULE OF FEDERAL RECEIPTS
AIRPORT IMPROVEMENT PROGRAM
For the Fiscal Year Ended June 30, 1999

City/Airport	Project Number	Amount
Ainsworth	3-31-0001-03	\$ 1,236,021
Albion	3-31-0002-01	\$ 78,616
Alliance	3-31-0003-06	\$ 50,965
Beatrice	3-31-0009-06	\$ 20,164
Chadron	3-31-0017-02	\$ 13,905
Columbus	3-31-0019-03	\$ 96,399
Crete	3-31-0022-03	\$ 27,015
Fremont	3-31-0029-05	\$ 15,220
Grand Island	3-31-0034-12	\$ 12,257
Grand Island	3-31-0034-13	\$ 19,441
Grand Island	3-31-0034-14	\$ 94,620
Grand Island	3-31-0034-15	\$ 188,185
Hastings	3-31-0040-04	\$ 26,549
Kimball	3-31-0047-03	\$ 79,577
Lincoln	3-31-0050-16	\$ 6,257
Lincoln	3-31-0050-20	\$ 17,011
Lincoln	3-31-0050-21	\$ 6,475
Lincoln	3-31-0050-22	\$ 32,260
Lincoln	3-31-0050-23	\$ 1,420,478
Minden	3-31-0054-04	\$ 26,429
NE Department of Aeronautics	3-31-0000-S5	\$ 40,744
Norfolk	3-31-0058-06	\$ 5,257
Norfolk	3-31-0058-07	\$ 346,313
North Platte	3-31-0059-13	\$ 65,700
North Platte	3-31-0059-14	\$ 30,288
North Platte	3-31-0059-15	\$ 28,691
Omaha	3-31-0062-26	\$ 814,557
Omaha	3-31-0062-28	\$ 263,018
Omaha	3-31-0062-29	\$ 5,259,981
Omaha	3-31-0062-30	\$ 196,838
Plattsmouth	3-31-0068-03	\$ 41,426
Plattsmouth	3-31-0068-04	\$ 5,914
Scottsbluff	3-31-0072-11	\$ 8,600
Scottsbluff	3-31-0072-15	\$ 31,909
Scottsbluff	3-31-0072-16	\$ 499,949
Valentine	3-31-0084-01	\$ 76,385
Wayne	3-31-0086-03	\$ 8,941
		<u>\$ 11,192,355</u>

**NEBRASKA DEPARTMENT OF AERONAUTICS
 SCHEDULE OF AIRCRAFT HOURS USED BY AGENCY
 For the Fiscal Year Ended June 30, 1999**



*Other includes: Department of Economic Development, Department of Administrative Services, University Regents, Department of Labor, Workers Compensation Court, University of Nebraska Foundation, Department of Agriculture, Game and Parks, Mexican/American Commission, Lt Governor, University of Nebraska-Omaha/Aviation Institution, State College Board, Department of Education, State Patrol, University of Nebraska-Kearney/Chancellors, Water/Natural Resources, Department of Environmental Quality, and the Supreme Court.

NEBRASKA DEPARTMENT OF AERONAUTICS
SCHEDULE OF PERFORMANCE MEASURES
For the Fiscal Year Ended June 30, 1999

	(unaudited) FYE 6/30/95	(unaudited) FYE 6/30/96	(unaudited) FYE 6/30/97	(unaudited) FYE 6/30/98	(audited) FYE 6/30/99
Subprogram 2 (Regulation and Promotion):					
Number of public use airports licensed.	97	93	93	91	91
Number of restricted landing areas for personal use registered.	202	209	189	174	164
Number of aerial applicator businesses certified. *	159	153	151	153	140
Number of agricultural pilots certified. *	205	203	230	238	225
Subprogram 3 (Operation - State Owned Airfields):					
Aviation gasoline sales in gallons.	16,511	12,023	17,118	21,309	10,324
Number of hangars T-hangars leased.	49	53	53	49	53
Number of commercial building rentals.	6	5	4	3	6
Subprogram 4 (Navigational Aids):					
Number of VOR and DME navigational stations.	9	9	9	9	10
Average cost per VOR and DME navigational station.	10,886	10,975	13,032	13,011	18,253
Number of non-directional radio beacon (NDB) stations.	37	36	35	35	35
Average cost per NDB station.	2,370	1,917	2,207	2,713	2,701
Number of SWOP weather stations.	12	8	6	5	5
Number of Automated Weather Observation System (AWOS) stations.	8	9	9	9	9
Average cost per AWOS station.	5,439	7,963	11,740	11,839	11,038
Number of runway lighting system inspections performed. **	71	71	71	71	71
Subprogram 5 (Airport Development):					
Grants to airports to improve safety.	58,050	0	191,020	0	404,918
Number of airport safety inspections performed. **	82	80	55	79	73
Number of airports that meet the state's safety standards.	75	76	74	74	76
Number of airport pavement surveys performed. **	25	24	27	25	22
Average pavement condition rating. (0-100, 100 best)	75	73	80	82	84
Percentage of pavement sections meeting the minimum pavement condition rating.	85.0%	83.0%	90.0%	89.0%	89.0%
Federal/State grants for rehabilitation and maintenance of airport facilities (small airports).	2,162,927	1,965,264	1,799,890	1,822,330	6,981,319
Grants for rehabilitation and maintenance of airport facilities (large airports).	0	612,000	611,030	945,790	2,835,489
State grants issued.	558,694	476,393	1,325,922	439,298	2,836,921
State loans issued.	1,110,468	616,723	616,211	490,894	494,124
Subprogram 9 (Runway Rehabilitation):					
Total airport pavement crack sealing in linear feet.	355,006	459,393	368,128	341,184	284,139
Total runway surface marking in square feet.	169,369	98,566	5,550	187,870	191,680
Program 596 (State Owned Aircraft) - Subprogram 6 (Operations) & Subprogram 7 (Overhaul/Replacement/Reserve)					
Number of hours flown by Department of Aeronautics.	1,217	1,348	1,075	1,218	1,150
Operational cost total for all three state owned aircraft.	77,104	42,028	56,515	46,600	89,219
Total fuel and oil costs for all three state owned aircraft.	68,117	61,108	57,416	56,025	64,462

* Certifications are April 15, 1999 through April 15, 2000

** Inspections reflect those performed in a calendar year.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
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Lincoln, NE 68509
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NEBRASKA DEPARTMENT OF AERONAUTICS
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Department of Aeronautics as of and for the year ended June 30, 1999, and have issued our report thereon dated June 16, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements, was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Aeronautics. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Aeronautics' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Department of Aeronautics in the Comments Section of this report as Comment Number 2 (Reappraisal of Real Property).

Internal Control Over Financial Reporting

In planning- and performing our audit, we considered the Nebraska Department of Aeronautics' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable

condition. 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 Nebraska Department of Aeronautics' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Internal Control Over Fixed Assets).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of 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 do not believe the reportable condition described above is a material weakness.

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

A handwritten signature in cursive script that reads "Julia Peralta CPA". The signature is written in black ink and is positioned to the right of the date.

June 16, 2000

Manager