

**AUDIT REPORT
OF THE
STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE**

JULY 1, 1999 THROUGH JUNE 30, 2000

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	2
Organizational Chart	3
Comments Section	
Summary of Comments	4
Comments and Recommendations	5 - 6
Financial Section	
Independent Auditors' Report	7 - 8
Financial Statements:	
Combined Statement of Assets, Fund Balances and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	9
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	10
Statement of Receipts, Disbursements, and Changes In Fund Balances - Budget and Actual - General, Cash, and Revolving Funds	11
Notes to Financial Statements	12 - 21
Combining Statements and Schedules:	
Combining Statement of Assets, and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	22
Combining Statement of Assets, and Fund Balances Arising from Cash Transactions – All Internal Service Funds	23
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – Special Revenue Funds	24
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – Internal Service Funds	25
Schedule of Disbursements by Program	26
Schedule of Service Efforts and Accomplishments	27 - 29
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	30 - 31

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

BACKGROUND

The authority and responsibilities of the Secretary of State, an elected official, are derived from the State Constitution and Nebraska Statutes. The Office of Secretary of State, created in 1867, administers laws in the areas of elections, business and farm corporations, trademarks and trade names, debt management, and state records management. The Office issues licenses to private detectives, notaries, debt managers, truth and deception examiners, and collection agencies. Official filings are maintained in a variety of areas, including official bonds and uniform commercial code documents. The Secretary of State is the keeper of the Great Seal of the State of Nebraska, and is the repository for the State Constitution, legislative bills, State agency rules and regulations, and other official documents of the State.

The programs established to administer the requirements of the Office are:

- ◆ Program 9 Salary-Secretary of State - to provide compensation for the Secretary of State. The Secretary of State is administrator or serves as a member of various boards and commissions, including: Nebraska Brand Committee, State Real Estate Commission, Board of Equalization & Assessment, State Canvassing Board, Board of Pardons, and Nebraska Accountability and Disclosure Commission.
- ◆ Program 22 Departmental Administration - provides the overall coordination of agency operations. This program administers and processes all documentation pertinent to the implementation and monitoring of the elective process, notary publics, rules and regulations filings, private investigators, and fiscal and personnel management of the department.
- ◆ Program 51 Enforcement of Standards - Corporations – administers, processes, and is the repository for all Articles of Incorporation, Certificates of Authority, Amendments, Trade Names, Trademarks, Service Marks, Limited Partnerships, and Limited Liability Companies.
- ◆ Program 53 Enforcement of Standards - Collection Agencies – regulates, licenses, and administers bonding requirements for collection agencies and solicitors. Receives and investigates applicants and complaints regarding collection agencies.
- ◆ Program 86 Records Management – provides comprehensive records management to all agencies of State government, including higher education, and advises and assists local political subdivisions in implementing records management programs, policies, and procedures. As of June 1997, this program also administers the receipts and disbursements of the State Records Board related to Nebrask@Online.
- ◆ Program 89 Uniform Commercial Code Central Filing – receives, records, and files Uniform Commercial Code (UCC) financing statements to make a public record of secured financial transactions between a debtor and a secured party.

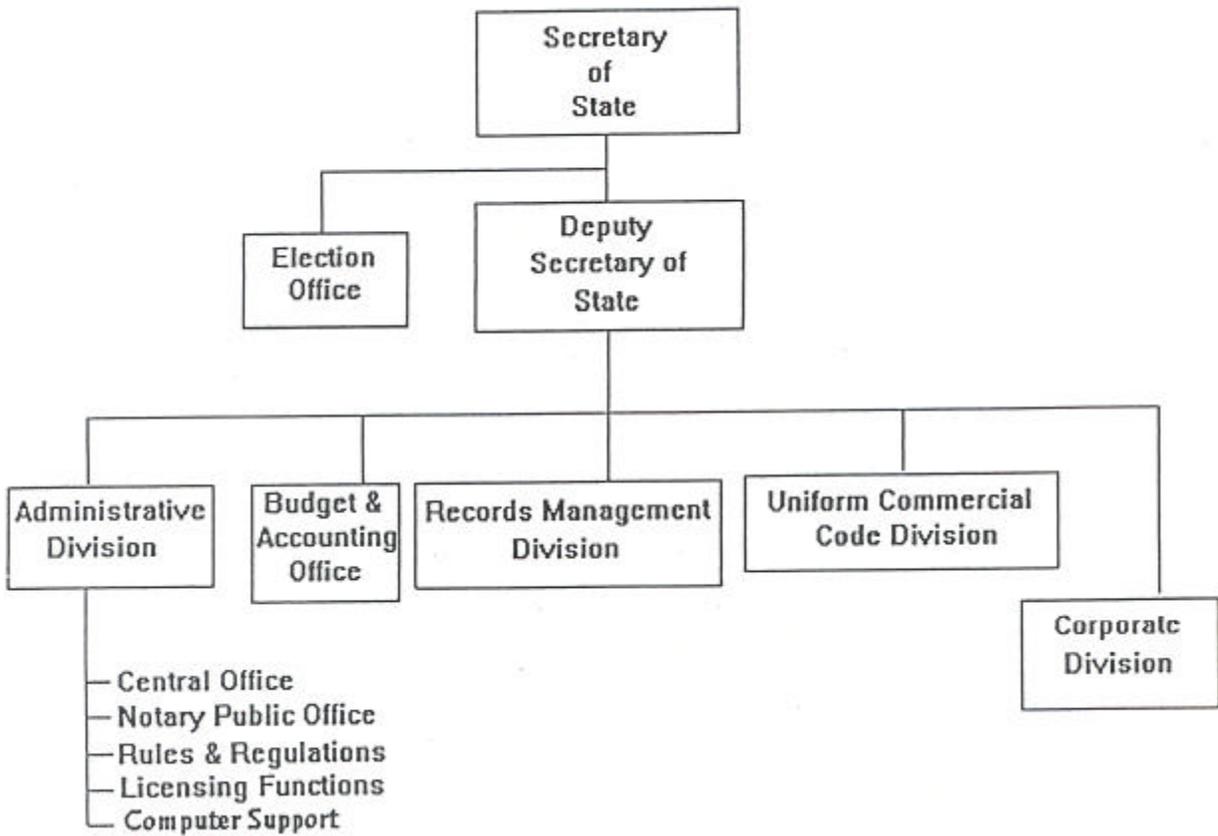
STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

MISSION STATEMENT

The mission of the Secretary of State is to continue to provide the commitment and service to the Citizens of the State of Nebraska.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

ORGANIZATIONAL CHART



STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

SUMMARY OF COMMENTS

During our audit of the State of Nebraska Office of the Secretary of State, 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. **Receipts:** There was a lack of segregation of duties over receipts in the UCC, Corporate, and Administrative divisions.
2. **Fixed Assets:** There was a lack of segregation of duties over fixed assets, and items were not added to the fixed asset list in a timely manner.
3. **Payroll:** Documentation was not adequate to support payroll charges allocated for 7 of 44 employees.

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 Office 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.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

1. Receipts

Good internal control requires a segregation of duties so no one individual can handle all phases of a transaction from beginning to end. Good internal control also includes a plan of organization, procedures, and records designed to provide reliable financial records.

We noted there was a lack of segregation of duties over receipts in the UCC, Corporate, and Administrative divisions. A lack of segregation of duties increases the risk for the loss or misuse of State funds.

We recommend the Office implement procedures to improve segregation of duties or establish adequate compensating controls.

OFFICE'S RESPONSE: THE LACK OF SEGREGATION IS ATTRIBUTED TO THE LIMITED NUMBER OF INDIVIDUALS AVAILABLE TO PERFORM RECEIPT FUNCTIONS. THE SECRETARY OF STATE OFFICE WILL CONTINUE TO WORK WITH THE RESPECTIVE DIVISIONS TO RESOLVE THE SEGREGATION OF DUTIES. WE WILL RESEARCH ANY POSSIBILITIES THAT WILL BRING THE OFFICE IN COMPLIANCE WITH GOOD INTERNAL CONTROL OF RECEIPT FUNCTIONS.

2. Fixed Assets

Good internal control requires a segregation of duties so no one individual can handle all phases of a transaction from beginning to end. The system should also include a plan of organization, procedures, and records designed to safeguard assets and provide reliable records. Neb. Rev. Stat. Section 81-1118.02(1) R.R.S., 1999 states, "Each executive, department, commission, or other state agency . . . shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency." Section 81-1118.02(3) further requires all such property belonging to the State of Nebraska be indelibly tagged, marked, or stamped, "Property of the State of Nebraska."

We noted the following:

- ◆ The Records Management division of the Secretary of State does not have an adequate segregation of duties over fixed assets. One employee has the authority to add items to inventory, delete items, review the 4800 exception report, maintain the fixed asset inventory records, and complete the physical inventory. No other employees, with the exception of one who assists with the physical inventory, perform any of these functions. This comment was noted in the prior audit. We also noted a lack of segregation of duties for the central office.
- ◆ A physical inventory for the Records Management division has not been completed since 1996.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

2. Fixed Assets (Concluded)

- ◆ Eight items purchased during the fiscal year were not added to the fixed asset list. One of these items, a laptop computer purchased November 1999, was not tagged as property of the State of Nebraska. We also noted one item for the Records Management division had not been added to the fixed asset list.

Noncompliance with statutes, and inadequate controls, increase the risk for loss or misuse of State assets.

We recommend the Office review procedures to ensure an adequate segregation of duties. We further recommend purchases be added to the fixed asset list in a timely manner and tagged as property of the State of Nebraska.

OFFICE'S RESPONSE: THE SECRETARY OF STATE OFFICE IS ADDRESSING THE INVENTORY ITEMS MENTIONED IN THE AUDIT REPORT. IN ORDER TO ADDRESS THE LACK OF SEGREGATION OF DUTIES, THIS OFFICE WILL HAVE THE DEPUTY SECRETARY OF STATE PERIODICALLY REVIEW PURCHASES TO ENSURE TIMELY RECORDING OF FIXED ASSET INVENTORY. A POLICY REVIEW IS CURRENTLY BEING CONDUCTED TO DETERMINE THE PROPER DOLLAR THRESHOLD FOR ADDITION OF FIXED ASSETS INTO THE INVENTORY SYSTEM. ALL INVENTORY ITEMS NOTED ON THE AUDIT REPORT HAVE BEEN ADDED TO THE FIXED ASSET INVENTORY AND PROPERLY TAGGED. THOSE ITEMS THAT DO NOT MEET THE SECRETARY OF STATE'S NEW POLICY WILL BE EXPENSED IN THE FISCAL YEAR PURCHASED.

3. Payroll

The Legislature establishes Personal Service limitations by program. When employees work on multiple activities or programs, good internal control requires documentation to ensure payroll is charged to the appropriate funds and programs. Documentation supporting the basis for allocations should be maintained.

We noted 7 of 44 employees whose pay was charged to more than one program. While percentages are used to allocate payroll charges, supporting documentation for the percentages used was not available. The percentages developed were not based on time records of actual employee activity.

We recommend the Office maintain documentation to support the allocation of payroll charges.

OFFICE'S RESPONSE: A PAYROLL ALLOCATION REVIEW WILL BE PERFORMED TO SUPPORT THE DISTRIBUTION OF PROGRAM TIME WITHIN THE SECRETARY OF STATE OFFICE. THE AUDIT RECOMMENDATION TO DOCUMENT PAYROLL/TIME CHARGES WILL BE COMPLETED TO VALIDATE THE PAYROLL DISTRIBUTION AS REPORTED. THIS ANALYSIS OF PAYROLL WILL BE PLACED ON FILE FOR FUTURE USE AND AUDIT REVIEW.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the State of Nebraska Office of the Secretary of State as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Office'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 State of Nebraska Office of the Secretary of State, 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 State of Nebraska Office of the Secretary of State as of June 30, 2000, 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 August 30, 2000, on our consideration of the State of Nebraska Office of the Secretary of State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report on compliance and on internal control over financial reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the financial statements.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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.

August 30, 2000

Pat Reding, CPA
Manager

OFFICE OF THE SECRETARY OF STATE
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES AND
OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**

June 30, 2000

	<u>Governmental Fund Types</u>		<u>Proprietary</u>	<u>Account Group</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Fund Type</u> Internal Service	<u>General</u> Fixed Assets	<u>Totals</u> (Memorandum Only)
<u>Assets</u>					
Cash in State Treasury	\$ -	\$ 2,460,930	\$ 495,441	\$ -	\$ 2,956,371
Deposit with Vendors	3,039	2,723	-	-	5,762
Property, Plant, and Equipment (Note 5)	-	-	-	522,492	522,492
 Total Assets	 <u>\$ 3,039</u>	 <u>\$ 2,463,653</u>	 <u>\$ 495,441</u>	 <u>\$ 522,492</u>	 <u>\$ 3,484,625</u>
 <u>Fund Balances and Other Credits</u>					
Other Credits,					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 522,492	\$ 522,492
Fund Balances:					
Reserved For Postage	3,039	2,723	-	-	5,762
Unreserved, Undesignated	-	2,460,930	495,441	-	2,956,371
 Total Fund Balances and Other Credits	 <u>\$ 3,039</u>	 <u>\$ 2,463,653</u>	 <u>\$ 495,441</u>	 <u>\$ 522,492</u>	 <u>\$ 3,484,625</u>

See Notes to Financial Statements.

OFFICE OF THE SECRETARY OF STATE
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	Totals
	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>	(Memorandum Only)
RECEIPTS:				
Appropriations	\$ 657,254	\$ -	\$ -	\$ 657,254
Taxes:				
Domestic Corporation Taxes	1,406,030	-	-	1,406,030
Foreign Corporation Taxes	4,898,101	-	-	4,898,101
Other Taxes	57,447	-	-	57,447
Sales and Charges	1,366,079	2,371,765	2,071,656	5,809,500
Miscellaneous	66,897	117,864	25,196	209,957
TOTAL RECEIPTS	8,451,808	2,489,629	2,096,852	13,038,289
DISBURSEMENTS:				
Personal Services	526,781	614,324	320,025	1,461,130
Operating	109,590	840,850	1,541,931	2,492,371
Travel	13,112	7,622	8,721	29,455
Capital Outlay	7,771	220,683	87,603	316,057
TOTAL DISBURSEMENTS	657,254	1,683,479	1,958,280	4,299,013
Excess of Receipts Over Disbursements	7,794,554	806,150	138,572	8,739,276
OTHER FINANCING SOURCES (USES):				
Sales of Assets	689	-	7	696
Deposits to State General Fund	(7,795,243)	-	-	(7,795,243)
TOTAL OTHER FINANCING SOURCES (USES)	(7,794,554)	-	7	(7,794,547)
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	-	806,150	138,579	944,729
FUND BALANCE, JULY 1, 1999	3,039	1,657,503	356,862	2,017,404
FUND BALANCE, JUNE 30, 2000	\$ 3,039	\$2,463,653	\$ 495,441	\$2,962,133

See Notes to Financial Statements.

OFFICE OF THE SECRETARY OF STATE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2000

	GENERAL FUND			CASH FUNDS		
		ACTUAL	VARIANCE		ACTUAL	VARIANCE
	BUDGET	(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)	BUDGET	(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations	\$	657,254		\$	-	
Taxes		6,361,578			-	
Sales and Charges		1,366,079			3,576,478	
Miscellaneous		<u>66,897</u>			<u>139,119</u>	
TOTAL RECEIPTS		<u>8,451,808</u>			<u>3,715,597</u>	
DISBURSEMENTS:						
Personal Services		526,781			614,324	
Operating		109,590			1,981,907	
Travel		13,112			8,116	
Capital Outlay		<u>7,771</u>			<u>220,683</u>	
Total Budgeted	\$	702,153	\$ 44,899	\$	3,669,914	\$ 844,884
Under (Over) Budgeted		<u>(2,065)</u>	<u>-</u>	<u>2,065</u>	<u>-</u>	<u>2,065</u>
TOTAL DISBURSEMENTS		<u>700,088</u>	<u>42,834</u>		<u>3,671,979</u>	<u>846,949</u>
Excess of Receipts Over Disbursements		<u>7,794,554</u>			<u>890,567</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		689			-	
Deposit to State General Fund		<u>(7,795,243)</u>			<u>-</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(7,794,554)</u>			<u>-</u>	
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		-			890,567	
FUND BALANCES, JULY 1, 1998		<u>3,039</u>			<u>1,992,775</u>	
FUND BALANCES, JUNE 30, 1999	\$	<u>3,039</u>		\$	<u>2,883,342</u>	

See Notes to Financial Statements.

(Continued)

OFFICE OF THE SECRETARY OF STATE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2000

	REVOLVING FUND			TOTALS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ -			\$ 657,254	
Taxes					6,361,578	
Sales and Charges		866,943			5,809,500	
Miscellaneous		<u>3,941</u>			<u>209,957</u>	
TOTAL RECEIPTS		<u>870,884</u>			<u>13,038,289</u>	
DISBURSEMENTS:						
Personal Services		320,025		\$ 1,357,549	1,461,130	\$ (103,581)
Operating		400,874		3,753,677	2,492,371	1,261,306
Travel		8,227		1,523	29,455	(27,932)
Capital Outlay		<u>87,603</u>		<u>232,431</u>	<u>316,057</u>	<u>(83,626)</u>
Total Budgeted	\$ 973,113	816,729	\$ 156,384	5,345,180	4,299,013	1,046,167
Under (Over) Budgeted	-	-	-	-	-	-
TOTAL DISBURSEMENTS	<u>973,113</u>	<u>816,729</u>	<u>156,384</u>	<u>5,345,180</u>	<u>4,299,013</u>	<u>1,046,167</u>
Excess of Receipts Over Disbursements		<u>54,155</u>			<u>8,739,276</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		7			696	
Deposit to State General Fund		<u>-</u>			<u>(7,795,243)</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>7</u>			<u>(7,794,547)</u>	
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		54,162			944,729	
FUND BALANCES, JULY 1, 1998		<u>21,590</u>			<u>2,017,404</u>	
FUND BALANCES, JUNE 30, 1999		<u>\$ 75,752</u>			<u>\$ 2,962,133</u>	

See Notes to Financial Statements.

(Concluded)

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. Summary of Significant Accounting Policies

The accounting policies of the State of Nebraska Office of the Secretary of State are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The State of Nebraska Office of the Secretary of State (the Office) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Office is exempt from State and Federal income taxes. The financial statements include all funds of the Office. The Office has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Office, or the significance of their relationship with the Office are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Office 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 Office 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 Office.

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

- B. Basis of Accounting.** The accounting records of the Office are maintained and the Office'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 proprietary 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 Office 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 accounts which record receipts, disbursements, and the fund balance. The fixed

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

Internal Service Funds. Reflect transactions used to account for centrally operated services which are provided to other State departments and agencies and other governmental units of the State. The services and commodities are charged to recipient agencies on a cost-reimbursement basis.

General Fixed Assets Account Group. Used to account for general fixed assets of the Office exclusive of assets held by the internal service funds.

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 Office 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.

5000 - Revolving Funds - account for the operation of State agencies which provide goods and services to other departments or agencies within State government.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 Office and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and 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, cash, and revolving 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, cash, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

The Office 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

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

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 Office'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 Office'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, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted and therefore there are no budgeted amounts shown on the Budget and Actual Statement.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash funds on the Budgetary Statement are appropriately classified as a Special Revenue fund for Financial Statement purpose except for cash fund 2093 which is appropriately classified as an Internal Service fund. Revolving fund 5090 on the Budgetary Statement is appropriately classified as Internal Service fund for Financial Statement purpose.

- 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 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. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000, have been recorded at

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

cost by the Office. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and 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 roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does 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. All of the funds of the Office were designated for investment during fiscal year 2000.

G. Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

H. Compensated Absences. All permanent employees working for the Office earn sick and annual leave. 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 (and amounts related to proprietary funds would be reflected separately in those 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.

I. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Office 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.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Taxes. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. A tax on the right or privilege of conducting a business in the State. (Primarily domestic and foreign corporation tax.)

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. (Includes non-profit biennial fees and uniform commercial code filings.)

Miscellaneous. Receipts from sources not covered by other major categories. (Includes penalties and investment income.)

L. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Office 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.

M. 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.

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.

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments

Risk Management. The Office 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 Office, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

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. Crime coverage with a limit of \$1 million for each loss with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000 with a self-insured retention of \$100,000 per loss occurrence. The perils of Flood and Earthquake are covered up to \$9,000,000. Newly acquired properties are only covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

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. Worker's 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 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 State of Nebraska Office of the Secretary of State's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Office, if any, could not be determined at this time. However, it is the Office's opinion

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

that final settlement of those matters should not have an adverse effect on the Office's ability to administer current programs. Any judgement against the Office would have to be processed through the State Claims Board and be approved by the Legislature.

4. State Employees Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Office 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 Office matches the employee's contribution at a rate of 156% of the employee's contribution.

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

For the Fiscal Year Ended June 30, 2000, employees contributed \$42,260 and the Office contributed \$65,926.

5. Fixed Assets

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

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
Equipment	\$ 525,760	\$ 164,150	\$ 167,418	\$ 522,492

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Fixed Assets (Concluded)

The total amount of fixed assets in the internal service fund at June 30, 2000, was \$2,039,903. Since the Office reports on a cash basis these amounts are not reflected in the financial statements and they have not been reduced by accumulated depreciation.

6. 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, 1999	\$ 1,302
New Appropriations	<u>698,786</u>
Total Appropriations	<u>700,088</u>
Disbursements	<u>(657,254)</u>
Ending (Appropriations) Balance June 30, 2000	<u>\$ 42,834</u>

OFFICE OF THE SECRETARY OF STATE
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL SPECIAL REVENUE FUNDS
 June 30, 2000

	Collection Agency Fund 2091	Corporation Cash Fund 2092	Administration Cash Fund 2094	Voter Registration Fund 2095	Uniform Comrn ercial Code Fund 2611	Totals Special Revenue Funds
<u>Assets</u>						
Cash in State Treasury	\$ 372,132	\$ 673,246	\$ 159,236	\$ 10,667	\$ 1,245,649	\$ 2,460,930
Deposit with Vendors	17	-	-	-	2,706	2,723
Total Assets	<u>\$ 372,149</u>	<u>\$ 673,246</u>	<u>\$ 159,236</u>	<u>\$ 10,667</u>	<u>\$ 1,248,355</u>	<u>\$ 2,463,653</u>
 <u>Fund Balances and Other Credits</u>						
Fund Balances:						
Reserved For Postage	\$ 17	\$ -	\$ -	\$ -	\$ 2,706	\$ 2,723
Unreserved, Undesignated	372,132	673,246	159,236	10,667	1,245,649	2,460,930
Total Fund Balances	<u>\$ 372,149</u>	<u>\$ 673,246</u>	<u>\$ 159,236</u>	<u>\$ 10,667</u>	<u>\$ 1,248,355</u>	<u>\$ 2,463,653</u>

See Notes to Financial Statements.

**OFFICE OF THE SECRETARY OF STATE
 COMBINING STATEMENT OF ASSETS AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 ALL INTERNAL SERVICE FUNDS**

June 30, 2000

	<u>Records Management Cash Fund 2093</u>	<u>Micrographics Service Fund 5090</u>	<u>Totals Internal Service Funds</u>
<hr/> Assets <hr/>			
Cash in State Treasury	<u>\$ 419,689</u>	<u>\$ 75,752</u>	<u>\$ 495,441</u>
Total Assets	<u><u>\$ 419,689</u></u>	<u><u>\$ 75,752</u></u>	<u><u>\$ 495,441</u></u>
 <hr/> Fund Balances <hr/>			
Fund Balances, Unreserved, Undesignated	<u>\$ 419,689</u>	<u>\$ 75,752</u>	<u>\$ 495,441</u>
Total Fund Balances	<u><u>\$ 419,689</u></u>	<u><u>\$ 75,752</u></u>	<u><u>\$ 495,441</u></u>

See Notes to Financial Statements.

OFFICE OF THE SECRETARY OF STATE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2000

	Collection Agency Fund 2091	Corporation Cash Fund 2092	Administration Cash Fund 2094	Voter Registration Fund 2095	Uniform Comnr ercial Code Fund 2611	Total Special Revenue Funds
RECEIPTS:						
Sales and Charges	\$ 157,304	\$ 487,012	\$ 102,700	\$ 6,433	\$ 1,618,316	\$ 2,371,765
Miscellaneous	<u>17,164</u>	<u>33,414</u>	<u>8,817</u>	<u>704</u>	<u>57,765</u>	<u>117,864</u>
TOTAL RECEIPTS	<u>174,468</u>	<u>520,426</u>	<u>111,517</u>	<u>7,137</u>	<u>1,676,081</u>	<u>2,489,629</u>
DISBURSEMENTS:						
Personal Services	31,436	203,613	57,489		321,786	614,324
Operating	3,876	138,564	34,604	8,273	655,533	840,850
Travel	4,373	444			2,805	7,622
Capital Outlay	<u>635</u>	<u>6,686</u>			<u>213,362</u>	<u>220,683</u>
TOTAL DISBURSEMENTS	<u>40,320</u>	<u>349,307</u>	<u>92,093</u>	<u>8,273</u>	<u>1,193,486</u>	<u>1,683,479</u>
Excess of Receipts Over Disbursements	<u>134,148</u>	<u>171,119</u>	<u>19,424</u>	<u>(1,136)</u>	<u>482,595</u>	<u>806,150</u>
FUND BALANCE, JULY 1, 1999	<u>238,001</u>	<u>502,127</u>	<u>139,812</u>	<u>11,803</u>	<u>765,760</u>	<u>1,657,503</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 372,149</u>	<u>\$ 673,246</u>	<u>\$ 159,236</u>	<u>\$ 10,667</u>	<u>\$ 1,248,355</u>	<u>\$ 2,463,653</u>

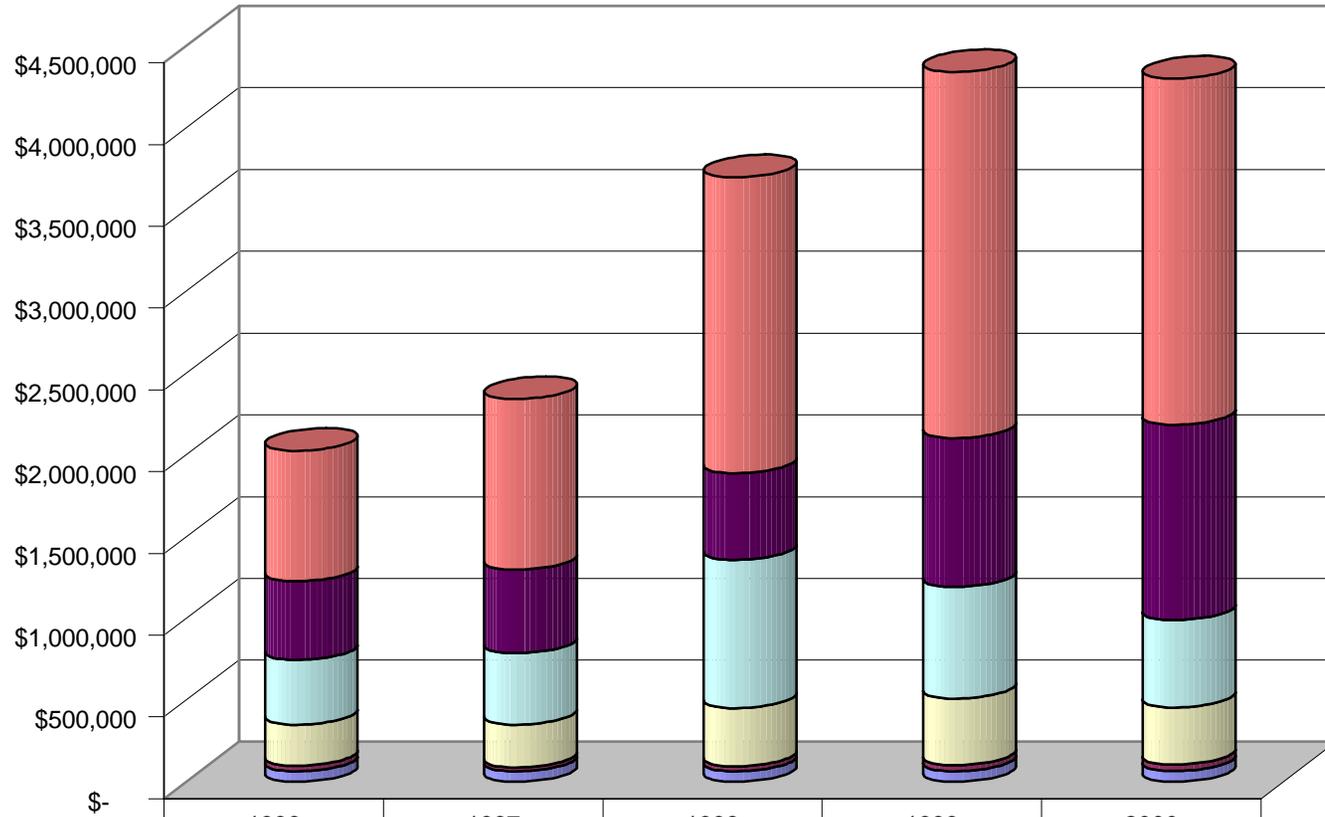
See Notes to Financial Statements.

OFFICE OF THE SECRETARY OF STATE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
INTERNAL SERVICE FUNDS
For the Fiscal Year Ended June 30, 2000

	Records Management Cash <u>Fund 2093</u>	Micrographics Service <u>Fund 5090</u>	Total Internal Service Funds
RECEIPTS:			
Sales and Charges	\$ 1,204,713	\$ 866,943	\$ 2,071,656
Miscellaneous	<u>21,255</u>	<u>3,941</u>	<u>25,196</u>
TOTAL RECEIPTS	<u>1,225,968</u>	<u>870,884</u>	<u>2,096,852</u>
DISBURSEMENTS:			
Personal Services	-	320,025	320,025
Operating	1,141,057	400,874	1,541,931
Travel	494	8,227	8,721
Capital Outlay	<u>-</u>	<u>87,603</u>	<u>87,603</u>
TOTAL DISBURSEMENTS	<u>1,141,551</u>	<u>816,729</u>	<u>1,958,280</u>
Excess of Receipts Over Disbursements	<u>84,417</u>	<u>54,155</u>	<u>138,572</u>
OTHER FINANCING SOURCES:			
Sales of Assets	<u>-</u>	<u>7</u>	<u>7</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>7</u>	<u>7</u>
Excess of Receipts and Other Financing Sources Over Disbursements	84,417	54,162	138,579
FUND BALANCE, JULY 1, 1999	<u>335,272</u>	<u>21,590</u>	<u>356,862</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 419,689</u>	<u>\$ 75,752</u>	<u>\$ 495,441</u>

See Notes to Financial Statements.

STATE OF NEBRASKA OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF DISBURSEMENTS BY PROGRAM
 Fiscal Years Ended June 30, 1996 through 2000

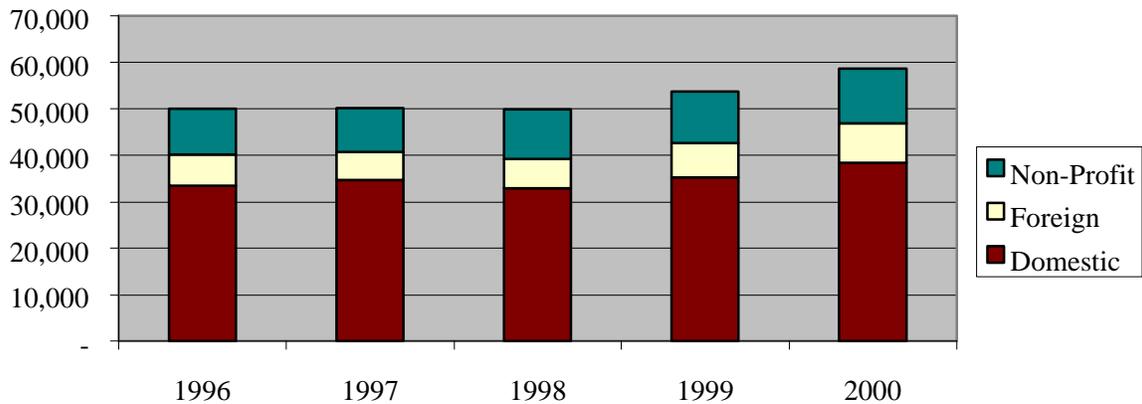


	1996	1997	1998	1999	2000
Records Management	\$798,292	\$1,042,932	\$1,809,777	\$2,237,509	\$2,117,579
Uniform Commercial Code	\$480,741	\$510,325	\$530,200	\$909,902	\$1,193,485
Department Administration	\$395,486	\$436,675	\$906,362	\$684,291	\$533,998
Corporations	\$251,194	\$262,315	\$355,684	\$405,501	\$349,306
Collection Agencies	\$34,634	\$23,631	\$31,263	\$38,181	\$40,320
Secretary of State-Salary	\$62,931	\$63,034	\$62,830	\$63,267	\$64,324

STATE OF NEBRASKA OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
PROGRAM 51 AND PROGRAM 89
 Fiscal Years Ended June 30, 1996 through 2000

Program 51 - Enforcement of Standards - Corporations					
	Fiscal Year				
	1996	1997	1998	1999	2000
Corporations of Record:					
Domestic	33,421	34,776	32,870	35,340	38,430
Foreign	6,691	5,996	6,373	7,300	8,523
Non-Profit	10,000	9,400	10,656	11,138	11,773
Taxes and Fees Collected	\$ 6,866,544	\$ 7,113,399	\$ 7,565,338	\$ 7,611,728	\$ 7,949,258

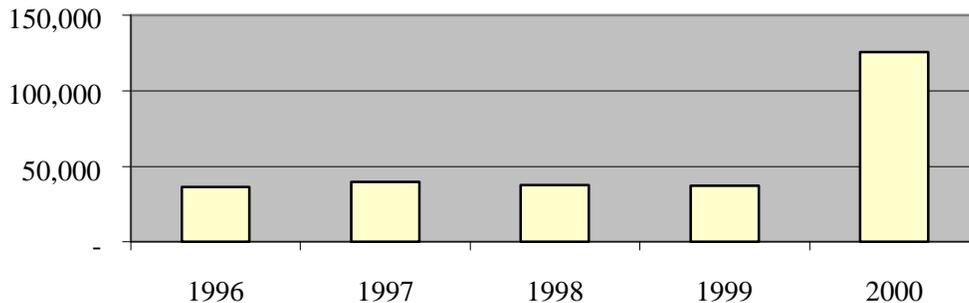
Corporations of Record



Program 89 - Uniform Commercial Code Central Filing					
	Fiscal Year				
	1996	1997	1998	1999	2000
UCC Filings	36,364	39,660	37,626	37,289	125,640
Fees Collected	\$ 613,864	\$ 679,174	\$ 662,390	\$ 670,046	\$ 1,618,316

Note: Effective July 1, 1999 UCC filings are centralized at the Office of Secretary of State.

UCC Filings



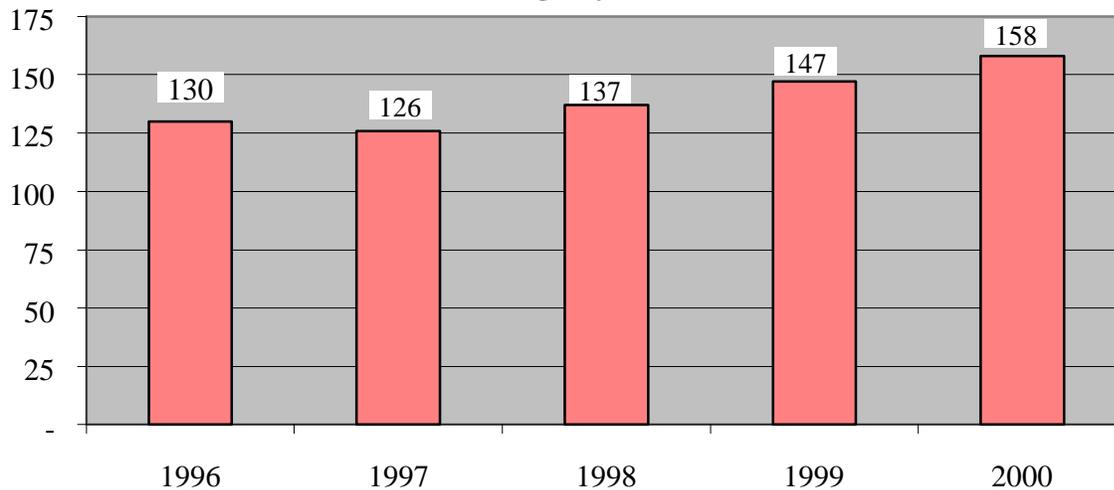
STATE OF NEBRASKA OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
PROGRAM 53

Fiscal Years Ended June 30, 1996 through 2000

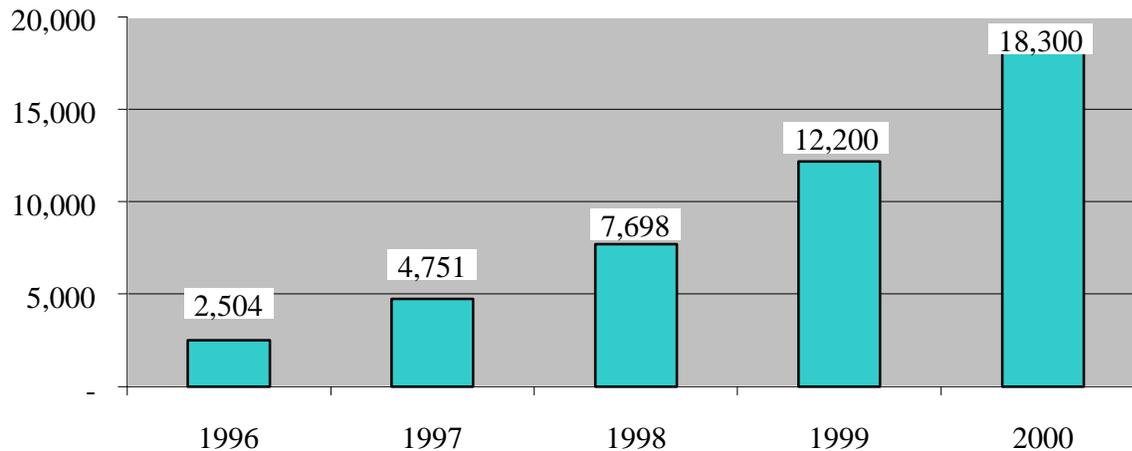
Program 53 - Enforcement of Standards - Collection Agencies
--

	Fiscal Year				
	1996	1997	1998	1999	2000
Number of Licenses/Renewals:					
New Agency Licenses	13	18	24	43	38
Licenses on Record/Renewals	130	126	137	147	158
Solicitor's Certificates Issued	2,504	4,751	7,698	12,200	18,300
New Branch Office Licenses	40	45	64	84	89
Branch Office Renewals	71	69	108	144	143
 Fees Collected	 \$ 50,630	 \$ 53,837	 \$ 76,333	 \$ 102,325	 \$ 157,304

Collection Agency Licenses on Record



Solicitor's Certificates Issued



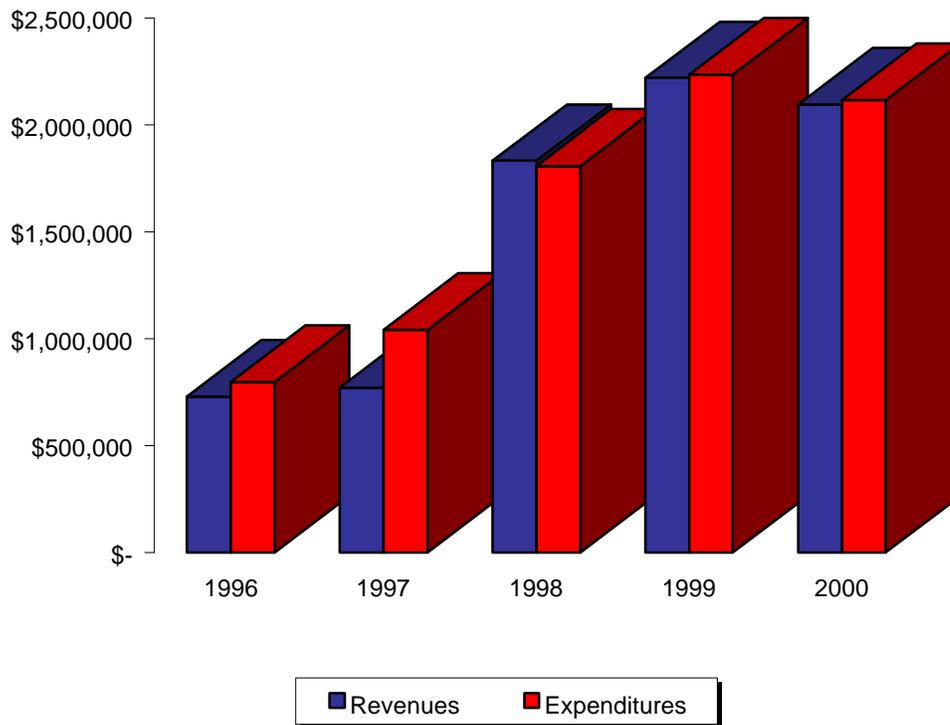
STATE OF NEBRASKA OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

PROGRAM 86

Fiscal Years Ended June 30, 1996 through 2000

Program 86 - Enforcement of Standards - Records Management					
	Fiscal Year				
	1996	1997	1998	1999	2000
Documents Microfilmed Records	4,165,128	4,189,294	3,882,596	3,900,953	1,940,146
Records Stored (cubic feet)	30,075	31,801	35,523	38,683	41,098
Records Destroyed (cubic feet)	19,121	16,528	16,334	18,004	13,873
 Program Revenues	 \$ 731,484	 \$ 772,074	 \$ 1,834,350	 \$ 2,220,736	 \$ 2,096,859
 Program Expenditures:					
Revolving fund	\$ 732,770	\$ 845,151	\$ 1,660,595	\$ 2,085,900	\$ 1,958,280
General Fund	\$ 65,522	\$ 197,781	\$ 149,182	\$ 151,609	\$ 159,298
Total Program Expenditures	\$ 798,292	\$ 1,042,932	\$ 1,809,777	\$ 2,237,509	\$ 2,117,578
 Fund Balance (Funds 2093 & 5090)	 \$ 121,348	 \$ 48,271	 \$ 222,026	 \$ 356,862	 \$ 495,441

N/A* - Not Available



STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

STATE OF NEBRASKA
OFFICE OF THE SECRETARY OF STATE
**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 State of Nebraska Office of the Secretary of State as of and for the year ended June 30, 2000, and have issued our report thereon dated August 30, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the State of Nebraska Office of the Secretary of State. 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 State of Nebraska Office of the Secretary of State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted a certain immaterial instance of noncompliance that we have reported to management of the State of Nebraska Office of the Secretary of State in the Comments Section of this report as Comment Number 2 (Fixed Assets).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska Office of the Secretary of State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance

on the internal control over financial reporting. 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 Office of the Secretary of State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Receipts) and Comment Number 2 (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 believe none of the reportable conditions described above is a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to management of the State of Nebraska Office of the Secretary of State in the Comments Section of the report as Comment Number 3 (Payroll).

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.

August 30, 2000

Pat Reding, CPA
Manager