

**AUDIT REPORT
OF THE
NEBRASKA RURAL DEVELOPMENT COMMISSION**

JULY 1, 2000 THROUGH JUNE 30, 2001

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

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

NEBRASKA RURAL DEVELOPMENT COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Summary of Comments	3
Comments and Recommendations	4 - 5
Financial Section	
Independent Auditors' Report	6 - 7
Financial Statements:	
Combined Statement of Assets, Fund Balances, and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	8
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	9
Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual - General, Cash, and Federal Funds	10 - 11
Notes to Financial Statements	12 - 20
Combining Statements and Schedule:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	21
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	22
Schedule of Disbursements	23
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>	24 - 25

NEBRASKA RURAL DEVELOPMENT COMMISSION

BACKGROUND

The Nebraska Rural Development Commission (Commission) was created by Executive Order in 1991, codified in 1993, and placed in the Department of Economic Development (DED) for administrative purposes. In 1998, the Commission was removed from the administrative oversight of DED and became a non-code State agency. The Commission consists of 17 voting citizen members and two non-voting State Senators. The Governor appoints all 19 members. The Commission also has the authority to appoint ex-officio members.

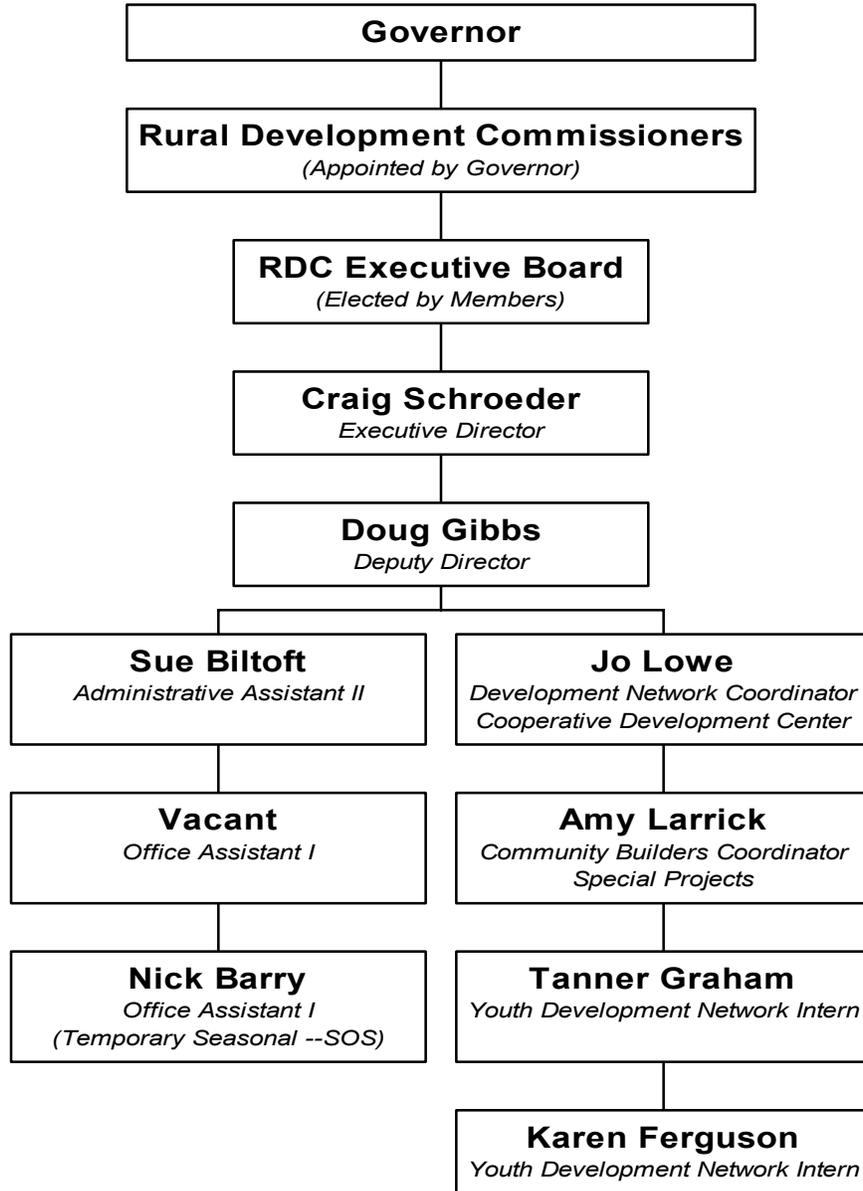
The Commission is charged by statute with advising the Governor, Legislature, and State agencies on rural development issues and policy; to serve as an information clearinghouse for rural challenges and needs; to administer the Nebraska Development Network program; to stimulate rural development innovation and foster information transfer to, from, and within rural Nebraska; to foster community-based development initiatives through multi-community partnerships; and to serve as a member of the Partnership for Rural Nebraska.

MISSION STATEMENT

The mission and purpose of the Rural Development Commission, as outlined in State Statute, shall be to advocate and recommend programs that encourage regional cooperation, foster community sustainability, and enhance economic development initiatives in rural Nebraska. The Commission fulfills its mission largely through initiatives that provide rural input into decision making, monitoring issues, facilitating challenges, and championing solutions.

NEBRASKA RURAL DEVELOPMENT COMMISSION

ORGANIZATIONAL CHART



NEBRASKA RURAL DEVELOPMENT COMMISSION

SUMMARY OF COMMENTS

During our audit of the Nebraska Rural Development Commission, 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. **Fixed Assets:** The Commission did not have written policies and procedures in place for recording fixed assets. A review of the Commission's internal control over fixed assets noted a lack of segregation of duties over the addition and deletion of items from the Statewide Inventory System (SWIS). One individual added and deleted items from SWIS with no independent review of the transactions that were completed. In addition, the same individual conducted the annual physical inventory. A fixed asset purchased for \$143 was coded to a 4800 capital outlay account, but was not added to the SWIS listing. An item purchased for \$226 was added to the SWIS listing, but was not coded to a 4800 capital outlay account. An item purchased for \$370 was added to the SWIS listing in error. Fixed assets were not tagged "Property of the State of Nebraska."
2. **Meal Log Policy:** The Commission did not have in place a written meal log policy for fiscal year 2001.

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 Commission 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 RURAL DEVELOPMENT COMMISSION

COMMENTS AND RECOMMENDATIONS

1. **Fixed Assets**

Good internal controls over fixed assets should include written policies and procedures that indicate the type and dollar amounts of items that will be included on the Statewide Inventory System (SWIS). Written policies and procedures should restrict one individual from performing all phases of a transaction without an independent review of those transactions. If a proper segregation of duties is not possible due to limited staff, controls should be implemented to compensate for the lack of segregation of duties and to ensure no individual can both perpetuate and conceal errors or irregularities.

Good internal control also requires procedures to ensure the SWIS listing is accurate and all capital expenditures are added to the SWIS listing in a timely manner. Only items intended to be added to the inventory listing should be coded to a 4800 capital outlay account.

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires Commissions to indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: "Property of the State of Nebraska."

We noted the following:

- The Commission did not have written policies and procedures in place for recording fixed assets. A review of the Commission's internal control over fixed assets noted a lack of segregation of duties over the addition and deletion of items from the SWIS. One individual added and deleted items from the SWIS with no independent review of the transactions that were completed. In addition, the same individual conducted the annual physical inventory. This was a comment in a prior audit.
- A fixed asset purchased for \$143 was coded to a 4800 capital outlay account, but was not added to the SWIS listing. An item purchased for \$226 was added to the SWIS listing, but was not coded to a 4800 capital outlay account. One item purchased for \$370 was added to the SWIS listing in error.
- Fixed assets were tagged but were not tagged "Property of the State of Nebraska."

Without proper internal controls or written policies and procedures over fixed assets, there is an increased risk of lost, stolen, or misappropriated assets, and errors in the inventory system. Furthermore, the Commission is not in compliance with State Statute.

We recommend the Commission develop and implement written policies and procedures to record fixed assets. Policies and procedures should also ensure a proper segregation of duties exists.
If a proper

NEBRASKA RURAL DEVELOPMENT COMMISSION

COMMENTS AND RECOMMENDATIONS

1. **Fixed Assets** (Concluded)

segregation of duties is not possible due to limited staff, controls should be implemented to compensate for the lack of segregation of duties and to ensure no individual can perform all phases of a transaction without an independent review of those transactions. This should include a periodic review of the SWIS History Report by an individual who does not add or delete items from the SWIS. Policies and procedures should clearly indicate the type and dollar amount of fixed assets to capitalize. In addition, we recommend the Commission comply with State Statute and tag fixed assets “Property of the State of Nebraska.”

Commission’s Response: We concur with the recommendation and will develop and implement written policy and procedures to record and monitor fixed assets. This policy will include proper segregation of duties, type and dollar amount of fixed assets to capitalize, and provide for a review of the SWIS history report. In addition, while fixed assets are already labeled with a Rural Development Commission property tag, they will also be tagged “Property of the State of Nebraska.”

2. **Meal Log Policy**

Internal Revenue Service (IRS) regulations and the Nebraska Accounting System (NAS) Manual, CONC-005, Travel Expense Policies, Section 5 require employees to substantiate the costs of meals. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount and place (e.g. city) for each meal/food cost. A combination of receipts and detailed itemization is permitted. To satisfy the requirement of the State’s accountability plan, the employee should utilize a documentation record to transfer cost information to the expense reimbursement form so reimbursement can be made.

The lack of a written policy increases the risk of noncompliance with IRS regulations.

We noted the Commission did not have in place a written meal log policy during the audit period. However, subsequent to our finding, the Commission adopted a policy requiring employees to submit receipts or an expense log to substantiate meal expenses for reimbursement.

We recommend the Commission continue to monitor procedures to ensure the policy is followed.

Commission’s Response: We concur with the recommendation and have developed a written meal expense reimbursement policy and will continue to monitor reimbursement procedures.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



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

NEBRASKA RURAL DEVELOPMENT COMMISSION

Kate Witek
State Auditor
kwitek@mail.state.ne.us

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

We have audited the financial statements of the Nebraska Rural Development Commission as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

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

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

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.

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Also as discussed in Note 1, the financial statements present only the Nebraska Rural Development Commission, 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.

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Rural Development Commission as of June 30, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming that the Nebraska Rural Development commission will continue as a going concern. As discussed in Note 9 to the financial statements, elimination of General Fund appropriations for the Nebraska Rural Development Commission raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2002, on our consideration of the Nebraska Rural Development Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedule 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

April 24, 2002

NEBRASKA RURAL DEVELOPMENT COMMISSION
COMBINED STATEMENT OF ASSETS, FUND BALANCES, AND OTHER CREDITS
ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP
June 30, 2001

	Governmental		Totals (Memorandum Only)
	Fund Types	Account Group	
	Special Revenue	General Fixed Assets	
Assets			
Cash in State Treasury	\$ 106,275	\$ -	\$ 106,275
Deposit with Vendors	263	-	263
Petty Cash	125	-	125
Property, Plant, and Equipment	-	61,436	61,436
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 106,663</u>	<u>\$ 61,436</u>	<u>\$ 168,099</u>
Fund Balances and Other Credits			
Other Credits:			
Investment in Fixed Assets	\$ -	\$ 61,436	\$ 61,436
Fund Balances:			
Reserved For Postage	263	-	263
Unreserved, Undesignated	106,400	-	106,400
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances and Other Credits	<u>\$ 106,663</u>	<u>\$ 61,436</u>	<u>\$ 168,099</u>

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

NEBRASKA RURAL DEVELOPMENT COMMISSION
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2001

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
RECEIPTS:			
Appropriations	\$ 357,238	\$ -	\$ 357,238
USDA Cooperative Agreement	-	139,331	139,331
Miscellaneous	-	4,083	4,083
TOTAL RECEIPTS	<u>357,238</u>	<u>143,414</u>	<u>500,652</u>
DISBURSEMENTS:			
Personal Services	267,365	-	267,365
Operating	62,000	93,404	155,404
Travel	20,515	7,619	28,134
Capital Outlay	7,358	-	7,358
TOTAL DISBURSEMENTS	<u>357,238</u>	<u>101,023</u>	<u>458,261</u>
Excess of Receipts Over Disbursements	<u>-</u>	<u>42,391</u>	<u>42,391</u>
OTHER FINANCING SOURCES:			
Sales of Assets		340	340
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>340</u>	<u>340</u>
Excess of Receipts and Other Financing Sources Over Disbursements	<u>-</u>	<u>42,731</u>	<u>42,731</u>
FUND BALANCES, JULY 1, 2000	<u>-</u>	<u>63,932</u>	<u>63,932</u>
FUND BALANCES, JUNE 30, 2001	<u>\$ -</u>	<u>\$ 106,663</u>	<u>\$ 106,663</u>

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

NEBRASKA RURAL DEVELOPMENT COMMISSION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 General, Cash, and Federal Funds
 For the Fiscal Year Ended June 30, 2001

	GENERAL FUND			CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ 357,238			\$ -	
USDA Cooperative Agreement		-			-	
Miscellaneous		-			2,052	
TOTAL RECEIPTS		357,238			2,052	
DISBURSEMENTS:						
Personal Services		267,365			-	
Operating		62,000			18,930	
Travel		20,515			-	
Capital Outlay		7,358			-	
TOTAL DISBURSEMENTS	\$ 357,238	357,238	\$ -	\$ 24,797	18,930	\$ 5,867
Excess of Receipts Over (Under) Disbursements		-			(16,878)	
OTHER FINANCING SOURCES:						
Sale of Assets		-			340	
TOTAL OTHER FINANCING SOURCES		-			340	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements		-			(16,538)	
FUND BALANCES, JULY 1, 2000		-			31,127	
FUND BALANCES, JUNE 30, 2001		\$ -			\$ 14,589	

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

(Continued)

NEBRASKA RURAL DEVELOPMENT COMMISSION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 General, Cash, and Federal Funds
 For the Fiscal Year Ended June 30, 2001

	FEDERAL FUND			TOTALS (MEMORANDUM ONLY)		
		ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)		ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET			BUDGET		
RECEIPTS:						
Appropriations		\$ -			\$ 357,238	
USDA Cooperative Agreement		139,331			139,331	
Miscellaneous		2,031			4,083	
TOTAL RECEIPTS		141,362			500,652	
DISBURSEMENTS:						
Personal Services		-		\$ 280,892	267,365	\$ 13,527
Operating		74,474		213,989	155,404	58,585
Travel		7,619		28,550	28,134	416
Capital Outlay		-		10,000	7,358	2,642
TOTAL DISBURSEMENTS	\$ 151,396	82,093	\$ 69,303	\$ 533,431	458,261	\$ 75,170
Excess of Receipts Over (Under) Disbursements		59,269			42,391	
OTHER FINANCING SOURCES:						
Sale of Assets		-			340	
TOTAL OTHER FINANCING SOURCES		-			340	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements		59,269			42,731	
FUND BALANCES, JULY 1, 2000		32,805			63,932	
FUND BALANCES, JUNE 30, 2001		\$ 92,074			\$ 106,663	

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

(Concluded)

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Rural Development Commission are on the basis of accounting as described in the Nebraska Accounting System Manual.

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

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

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Commission are maintained and the Commission's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Commission. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Under the cash receipts and disbursement basis of accounting, 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. 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.

- C. **Fund Accounting.** The accounts and records of the Commission 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 records 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 and 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.

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

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 Commission 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.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

NEBRASKA RURAL DEVELOPMENT COMMISSION

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 Commission 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 appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this 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 federal fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major 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 and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

The Commission 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.

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 Commission'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 Commission'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, 2001, 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. 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 Fund and Federal Fund on the Budgetary Statement are appropriately classified as Special Revenue Funds for Financial Statement purposes.

- 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

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

received. Assets on hand as of June 30, 2001 have been recorded at cost by the Commission. 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 a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Commission were designated for investment during fiscal year 2001.

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 Commission 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 otherwise be reported in the Long Term Debt Account Group are not reported since 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 Commission 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.

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

USDA Cooperative Agreement. Funds from the U.S. Department of Agriculture (USDA) Rural Economy Division to facilitate the formation and operation of the Rural Development Commission.

Miscellaneous. Receipts from sources not covered by other major categories.

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

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

2. **Totals**

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

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments**

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

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

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Rural Development Commission's financial statements.

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Litigation. The potential amount of liability involved in litigation pending against the Commission, if any, could not be determined at this time. However, it is the Commission's opinion that final settlement of those matters should not have an adverse effect on the Commission's ability to administer current programs. Any judgment against the Commission 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 Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

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 Commission 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, 2001, employees contributed \$6,320 and the Commission contributed \$9,859.

5. **Fixed Assets**

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

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2001</u>
Equipment	\$ 59,526	\$ 6,271	\$ 4,361	\$ 61,436

NEBRASKA RURAL DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 schedule reflects appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 2000	\$ 1,446
New Appropriations	355,792
Total Appropriations	<u>357,238</u>
Disbursements	<u>(357,238)</u>
Ending (Appropriations) Balance June 30, 2001	<u>\$ -</u>

7. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State’s revenue and expenditure recognition, and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

8. **Special Legislative Session**

2001 Special Session LB 1, Section 261, reduced the General Fund appropriations of the Nebraska Rural Development commission by \$14,612 for fiscal year 2002.

9. **Going Concern**

2002 Neb. Laws LB 1309, section 261 eliminated General Fund appropriations for the Nebraska Rural Development Commission for fiscal year 2003. This raises substantial doubt about the Commission’s ability to continue as a going concern. General Fund appropriations included \$358,701 of the \$503,701 program total for fiscal year 2003. The elimination of the General Fund appropriations reduces the overall operating budget of the Commission by 71%. Neb. Rev. Stat. Section 81-3601 R.R.S. 1999, which created the Commission, is still in effect. Management plans to reduce staffing to one full-time employee and to attempt to remain in operation with remaining Cash Funds and matching Federal dollars.

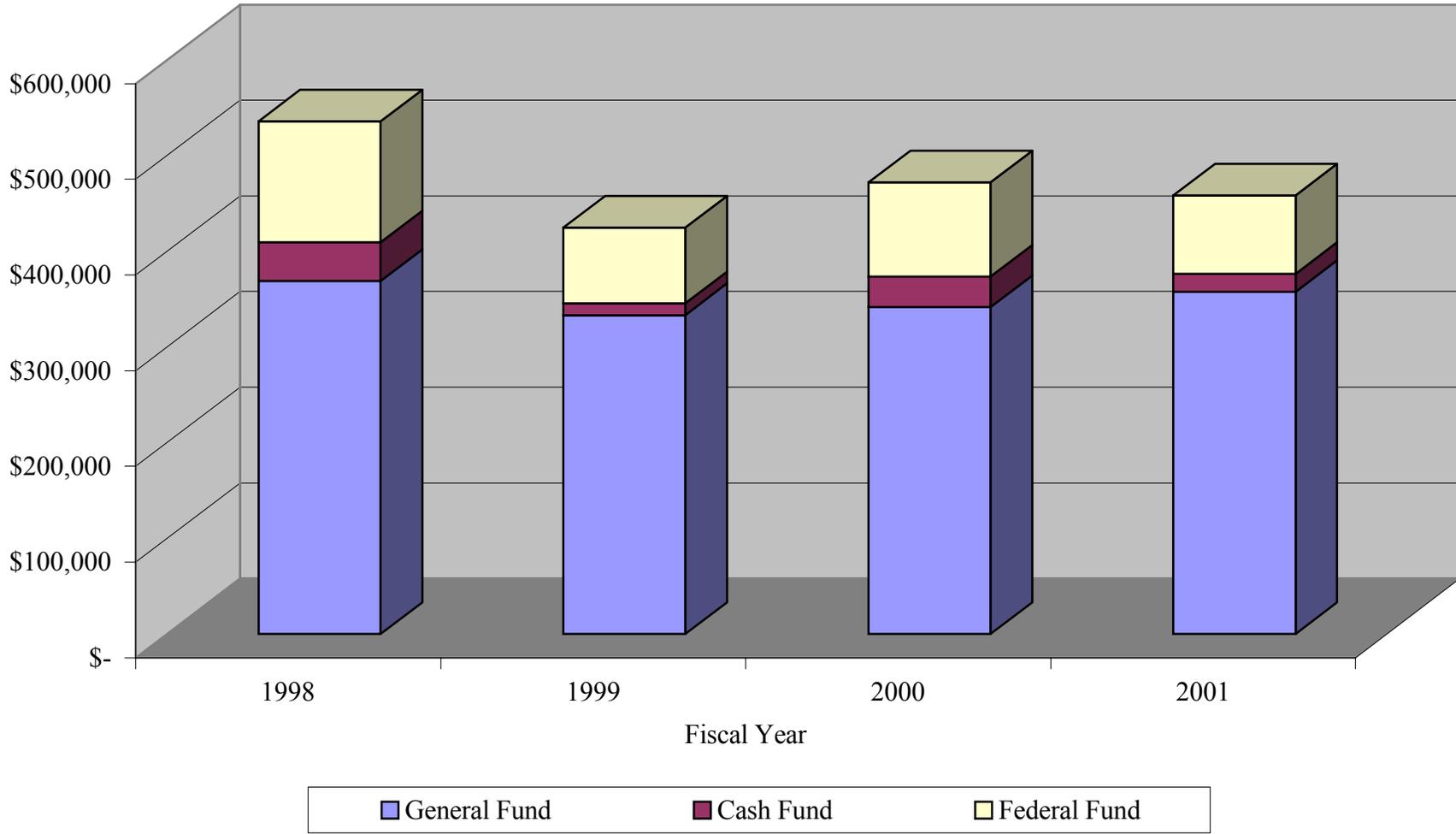
NEBRASKA RURAL DEVELOPMENT COMMISSION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 2001

	Rural Development Commission Fund 2074	RDC Federal Fund 4081	Total Special Revenue Funds
Assets			
Cash in State Treasury	\$ 14,442	\$ 91,833	\$ 106,275
Deposit with Vendors	22	241	263
Petty Cash	125	-	125
	<u>14,589</u>	<u>92,074</u>	<u>106,663</u>
Total Assets	<u>\$ 14,589</u>	<u>\$ 92,074</u>	<u>\$ 106,663</u>
Fund Balances			
Reserved For Postage	\$ 22	\$ 241	\$ 263
Unreserved, Undesignated	14,567	91,833	106,400
	<u>14,589</u>	<u>92,074</u>	<u>106,663</u>
Total Fund Balances	<u>\$ 14,589</u>	<u>\$ 92,074</u>	<u>\$ 106,663</u>

NEBRASKA RURAL DEVELOPMENT COMMISSION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2001

	Rural Development Commission Fund 2074	RDC Federal Fund 4081	Total Special Revenue Funds
RECEIPTS:			
USDA Cooperative Agreement	\$ -	\$ 139,331	\$ 139,331
Miscellaneous	2,052	2,031	4,083
TOTAL RECEIPTS	2,052	141,362	143,414
DISBURSEMENTS:			
Operating	18,930	74,474	93,404
Travel	-	7,619	7,619
TOTAL DISBURSEMENTS	18,930	82,093	101,023
Excess of Receipts Over (Under) Disbursements	(16,878)	59,269	42,391
OTHER FINANCING SOURCES:			
Sales of Assets	340	-	340
TOTAL OTHER FINANCING SOURCES	340	-	340
Excess of Receipts and Other Financing Sources Over (Under) Disbursements	(16,538)	59,269	42,731
FUND BALANCES, JULY 1, 2000	31,127	32,805	63,932
FUND BALANCES, JUNE 30, 2001	<u>\$ 14,589</u>	<u>\$ 92,074</u>	<u>\$ 106,663</u>

NEBRASKA RURAL DEVELOPMENT COMMISSION
SCHEDULE OF DISBURSEMENTS
For Fiscal Years Ended June 30, 1998-2001



STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



Kate Witek
State Auditor
kwitek@mail.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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

NEBRASKA RURAL DEVELOPMENT COMMISSION

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 Rural Development Commission as of and for the year ended June 30, 2001, and have issued our report thereon dated April 24, 2002. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Rural Development Commission. The report also notes substantial doubt about the Nebraska Rural Development Commission's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Rural Development Commission'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 immaterial instances of noncompliance that we have reported to management of the Nebraska Rural Development Commission in the Comments Section of this report as Comment Number 1 (Fixed Assets) and Comment Number 2 (Meal Log Policy).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Rural Development Commission's internal control over financial reporting in order

to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that we have reported to management of the Nebraska Rural Development Commission in the Comments Section of this report as Comment Number 1 (Fixed Assets).

This report is intended solely for the information and use of the Commission, 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

April 24, 2002