AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

JULY 1, 2001 THROUGH JUNE 30, 2002

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

TABLE OF CONTENTS

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

BACKGROUND

The Nebraska Department of Property Assessment and Taxation (Department) was officially created by the 1999 Legislature's enactment of Sections 77-701 to 77-708, effective July 1, 1999, and the Property Tax Administrator was designated as the Department's chief executive officer. Specific statutes regarding the duties and responsibilities of the Department of Property Assessment and Taxation and the Property Tax Administrator are primarily contained in Chapter 77 of the Revised Statutes of Nebraska.

The Department of Property Assessment and Taxation was formerly the Property Tax Division of the Department of Revenue. The Property Tax Administrator was created in 1996, as a six-year appointment by the Governor, to handle all property tax functions independent of the Tax Commissioner.

Beginning July 1, 1998, counties were able to elect to turn over their county assessment functions to the Department. As of June 30, 2002, the Department had assumed the assessment functions in the following counties: Dakota, Dodge, Garfield, Greeley, Harlan, Hitchcock, Keith, Saunders, and Sherman.

MISSION STATEMENT

The purpose of the Nebraska Department of Property Assessment and Taxation is to develop information, in various formats, that assists the administrators, payers, and beneficiaries of the property taxes to make informed decisions concerning the quality of the assessment function of the property tax system in Nebraska. Beginning on July 1, 1998, the Department assumed the assessment function in several counties in Nebraska.

The Department, directed by the Property Tax Administrator, is statutorily created and is governed by the Nebraska Constitution and statutes. Its functions include, but are not limited to, the following:

- To provide legal, policy and assessment information through regulations, rulings, directives, standards, manuals, and education, to the county assessors and other assessing officers to ensure the uniform execution of the property tax laws.

- To administer the assessment function in counties which have transferred that responsibility to the Property Tax Administrator.

- To provide advice concerning the assessment of real property to ensure the uniform and proportionate valuation of real property.

MISSION STATEMENT
(Concluded)

- To provide information to the property owner concerning the level of value and quality of the assessment of real property in each county.

- To determine the assessable valuation of all taxable property in each school district.

- To value and distribute the value of property required to be valued by the State, such as railroad companies, public service entities, carline companies, and air carriers.

- To administer the assessment administrative program for contracted counties.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

ORGANIZATIONAL CHART

(Left Out of PDF Version to Reduce File Size)

(If you would like a copy of the Organizational Charts please contact the Auditor of Public Accounts)

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

ORGANIZATIONAL CHART

(Left Out of PDF Version to Reduce File Size)

(If you would like a copy of the Organizational Charts please contact the Auditor of Public Accounts)

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

ORGANIZATIONAL CHART

(Left Out of PDF Version to Reduce File Size)

(If you would like a copy of the Organizational Charts please contact the Auditor of Public Accounts)

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

ORGANIZATIONAL CHART

(Left Out of PDF Version to Reduce File Size)

(If you would like a copy of the Organizational Charts please contact the Auditor of Public Accounts)

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Property Assessment and Taxation, 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. ***Tax Calculation Errors:*** Two of sixteen tax returns tested contained an error in the calculated amount of taxes due. The total unbilled taxes of these two returns was $13,711.

2. ***Deposits Not Timely:*** The five tax receipts tested were each more than $500 but not deposited within three days. The time from receipt until deposit ranged from 4 to 16 business days.

3. ***Internal Control Procedures Over Fixed Assets:*** We noted the following in our review of fixed asset records and internal control procedures:

   - There was not a documented physical inventory for fixed assets recorded on the Statewide Inventory System at the Lincoln office.
   - A lack of segregation of duties.
   - Fixed assets were omitted from, or not properly recorded on, the Department's fixed asset listing.

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Department declined to respond.

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

COMMENTS AND RECOMMENDATIONS

1. Tax Calculation Errors

Good accounting practice requires careful review of information provided to ensure correct information is used to calculate the amount of taxes due.

Two of sixteen tax returns tested contained an error in the calculated amount of taxes due. The total unbilled taxes of these two returns was $13,711. One error was the result of a mathematical error in the information reported to the Department. The second error was an error in the formula to compute the taxable valuation.

Without adequate review procedures in place, the risk of incorrect tax billings and potential lost tax revenue increases.

> We recommend the Department improve procedures to review the tax statements, including a more detailed review of the information reported by the air carriers and railroad companies as well as an independent review of the tax calculations prior to processing the tax statements. Further, we recommend the Department implement procedures to ensure spreadsheets used in the calculation of taxes are protected and that changes to formulas are restricted.

2. Deposits Not Timely

Neb. Rev. Stat. Section 84-710 R.S.Supp., 2002 requires "any money belonging to the State" to be paid "into the State treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more."

The five tax receipts tested were each more than $500 but not deposited within three days. The time from receipt until deposit ranged from 4 to 16 business days.

Without procedures in place to ensure deposits are made on a timely basis, the State of Nebraska loses the opportunity to earn interest on these funds.

> We recommend the Department improve procedures to comply with the statutory deposit time requirements.

3. Internal Control Procedures Over Fixed Assets

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." Good internal control

COMMENTS AND RECOMMENDATIONS

3. Internal Control Procedures Over Fixed Assets (Concluded)

includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties where no individual can handle all aspects of a transaction.

We noted the following:

- There was not a documented physical inventory for fixed assets recorded on the Statewide Inventory System at the Lincoln office.
- One employee was responsible for maintaining the fixed asset records, adding and deleting items from the fixed asset inventory listing, and ensuring all items were added to the listing. Furthermore, there was not a documented independent review to ensure all items were added or removed accurately.
- Fixed assets were omitted from, or not properly recorded on, the Department's fixed asset listing.

Without proper controls over fixed assets, the risk of loss or misuse of State assets increases.

> We recommend the Department implement procedures to ensure compliance with State Statutes and properly account for fixed assets. In addition, we recommend the Department implement procedures to ensure an adequate segregation of duties over fixed assets.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

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

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

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

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

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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Property Assessment and Taxation (Department), as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Department of Property Assessment and Taxation, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Department of Property Assessment and Taxation. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended 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 respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Property Assessment and Taxation, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2003, on our consideration of the Nebraska Department of Property Assessment and Taxation'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Don Dunlap CPA

May 8, 2003 Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Property Assessment and Taxation's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Department of Property Assessment and Taxation for the fiscal year ended June 30, 2002. Please read it in conjunction with the Department's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Department of Property Assessment and Taxation's basic financial statements. The Department's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Department's overall financial status. Over time, increases or decreases in the Department's net assets are one indicator of whether its financial health is improving or deteriorating. The Department's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Department. Nonfinancial factors also need to be considered to assess the overall health of the Department. Agency-wide financial statements divide the Department into three kinds of activities:

> Governmental activities – The Department's basic services are included here. These activities are generally financed through taxes.
>
> Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Department had no business-type activities for fiscal year ended June 30, 2002.
>
> Component units – No component units for the Department were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Department, reporting the Department's operations in more detail than the agency-wide statements by providing information about the Department's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Department currently has no proprietary funds.

Fiduciary fund statements provide information about financial relationships in which the Department acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Department currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as schedules of Assessed Valuation by Tax Year and Total Property Taxes by Tax Year. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Department of Property Assessment and Taxation's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Department (current assets resulting from cash basis transactions) decreased 70 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	Governmental Activities		
	2002	2001	% Change
Unrestricted	$ 1,243,439	$ 4,131,017	-70%
Total Net Assets	$ 1,243,439	$ 4,131,017	-70%

The significant decrease in Total Net Asset was mainly the result of a $2,018,559 transfer to the State Treasurer of property tax relief that could not be used by taxpayers due to homestead limitations. There was no such transfer during fiscal year 2001.

Governmental Activities

Receipts for the Department's governmental activities decreased 10 percent, while expenses decreased 84 percent.

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities		
	2002	2001	% Change
RECEIPTS:			
Program Receipts:			
Charges for Services	$ 433,351	$ 454,318	-5%
General Receipts:			
Appropriations	3,832,540	4,156,808	-8%
Carline & Airline Taxes	5,708,271	5,589,713	2%
Investment Interest	152,316	1,023,225	-85%
Total Receipts	10,126,478	11,224,064	-10%
DISBURSEMENTS:			
General Government	4,897,053	29,739,791	-84%
Total Disbursements	4,897,053	29,739,791	-84%
Excess (Deficiency) before Other Financing Sources and Uses	5,229,425	(18,515,727)	128%
OTHER FINANCING SOURCES & USES	(8,117,003)	19,783,814	-141%
Increase (Decrease) in Net Assets	(2,887,578)	1,268,087	-328%
Beginning Net Assets July 1	4,131,017	2,862,930	44%
Ending Net Assets June 30	$ 1,243,439	$ 4,131,017	-70%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The significant decreases in Investment Interest and Total Disbursements was mainly the result of $25,000,000 in property tax relief for tax year 2000 that was granted under the Relief to Property Taxpayers Act. The Department distributed the relief to each county in two equal payments during fiscal year 2001. There was no such tax relief distributed during fiscal year 2002.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Department of Property Assessment and Taxation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Significant changes to funds were noted and explained above under Changes in Net Assets. No additional significant changes from the prior year were noted.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Department of Property Assessment and Taxation.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES **TOTAL (Memorandum Only)**
Assets	
Cash in State Treasury	$ 1,239,524
Deposit with Vendors	3,915
Total Assets	$ 1,243,439
Net Assets	
Unrestricted	$ 1,243,439
Total Net Assets	$ 1,243,439

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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
General Government Function:	
Personal Services	$ 3,532,742
Operating	1,042,914
Travel	166,041
Capital Asset Purchases	155,356
Total Disbursements	4,897,053
Program Receipts:	
Charges for Services	433,351
Net Program Receipts (Disbursements)	(4,463,702)
General Receipts and Other Financing Sources & Uses:	
Appropriations	3,832,540
Taxes	5,708,271
Unrestricted Investment Interest	152,316
Other Financing Sources & Uses	(8,117,003)
Total General Receipts and Other Financing Sources & Uses	1,576,124
Change in Net Assets	(2,887,578)
Net Assets July 1, 2001	4,131,017
Net Assets June 30, 2002	$ 1,243,439

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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION
STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Fund	Other Funds	
	Department of Property Assessment & Taxation Fund 2155	Relief to Property Taxpayers Fund 2961	**Total Governmental Funds (Memorandum Only)**
Assets			
Cash in State Treasury	$ 1,192,598	$ 46,926	$ 1,239,524
Deposit with Vendors	3,915	-	3,915
Total Assets	$ 1,196,513	$ 46,926	$ 1,243,439
Fund Balances			
Reserved for:			
Postage	$ 3,915	$ -	$ 3,915
Unreserved	1,192,598	-	1,192,598
Unreserved, Reported in Nonmajor Special Revenue Funds	-	46,926	46,926
Total Fund Balances	$ 1,196,513	$ 46,926	$ 1,243,439

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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

	Major Funds		Other Fund	
	State General Fund 1000	Department of Property Assessment & Taxation Fund 2155	Relief to Property Taxpayers Fund 2961	**Total Governmental Funds (Memorandum Only)**
RECEIPTS:				
Appropriations	$ 3,832,540	$ -	$ -	$ 3,832,540
Taxes	-	5,708,271	-	5,708,271
Sales & Charges	65	431,657	-	431,722
Miscellaneous:				
Investment Interest	-	105,275	47,041	152,316
Other Miscellaneous	-	1,629	-	1,629
TOTAL RECEIPTS	3,832,605	6,246,832	47,041	10,126,478
DISBURSEMENTS BY FUNCTION:				
General Government	3,832,540	1,064,513	-	4,897,053
TOTAL DISBURSEMENTS	3,832,540	1,064,513	-	4,897,053
Excess (Deficiency) of Receipts Over (Under) Disbursements	65	5,182,319	47,041	5,229,425
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	544	-	544
Deposits to General Fund	(6,253,717)	-	-	(6,253,717)
Operating Transfers In	6,253,652	-	154,729	6,408,381
Operating Transfers Out	-	(6,253,652)	(2,018,559)	(8,272,211)
TOTAL OTHER FINANCING SOURCES (USES)	(65)	(6,253,108)	(1,863,830)	(8,117,003)
Net Change in Fund Balances	-	(1,070,789)	(1,816,789)	(2,887,578)
FUND BALANCES, JULY 1, 2001	-	2,267,302	1,863,715	4,131,017
FUND BALANCES, JUNE 30, 2002	$ -	$ 1,196,513	$ 46,926	$ 1,243,439

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Department of Property Assessment and Taxation are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

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

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

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Department, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Department. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Department reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

1. Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Department reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Fund Financial Statements. The fund financial statements provide information about the Department's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Department uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

General Fund. This is the Department's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Department of Property Assessment and Taxation Cash Fund. This fund accounts for the carline and airline taxes collected by the Department and other fees received for services.

The Department reports the following other fund:

Relief to Property Taxpayers Fund. This fund accounts for the property tax relief funds distributed to individual counties per Neb. Rev. Stat. Section 77-5304 R.S.Supp., 2000.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Department are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those

1. Summary of Significant Accounting Policies (Continued)

assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP), which requires the Agency-wide fund financial statement to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

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 Department were designated for investment during fiscal year 2002.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

E. 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 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 because interfund balances and transactions have not been eliminated.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments

Risk Management. The Department 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 Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State 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 Department of Property Assessment and Taxation's financial statements.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Department 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. Prior to April 18, 2002, membership in the Plan was 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. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed $115,580 and the Department contributed $180,305.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Transfers

During the fiscal year the Department transferred $2,018,559 of property tax relief that could not be used by taxpayers due to homestead limitations from the Relief to Property Taxpayers Fund to the State Treasurer. In addition, the Department transferred $6,253,652 from the Department of Property Assessment and Taxation Fund to the State General Fund to allow the State Treasurer to distribute the taxes to counties and political subdivisions.

6. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Department implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Department's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Department were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Department.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

SUPPLEMENTARY INFORMATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
PROGRAM:				
Operations	$ 4,532,467	$ 4,358,055	$ 3,832,540	$ 525,515
TOTAL DISBURSEMENTS	$ 4,532,467	$ 4,358,055	$ 3,832,540	$ 525,515

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUND
DEPARTMENT OF PROPERTY ASSESSMENT AND TAXATION FUND 2155
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
PROGRAM:				
Operations	$ 1,250,155	$ 1,250,155	$ 1,064,513	$ 185,642
TOTAL DISBURSEMENTS	$ 1,250,155	$ 1,250,155	$ 1,064,513	$ 185,642

See Notes to Supplementary Information

NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Department's legally adopted annual budget amount. The Department's budgetary comparison schedules include the General Fund and the Department of Property Assessment and Taxation Cash Fund.

GAAP also requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium 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 presents the 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 approved appropriations 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. As a result, the budgetary comparison schedules only report total disbursements *by program*.

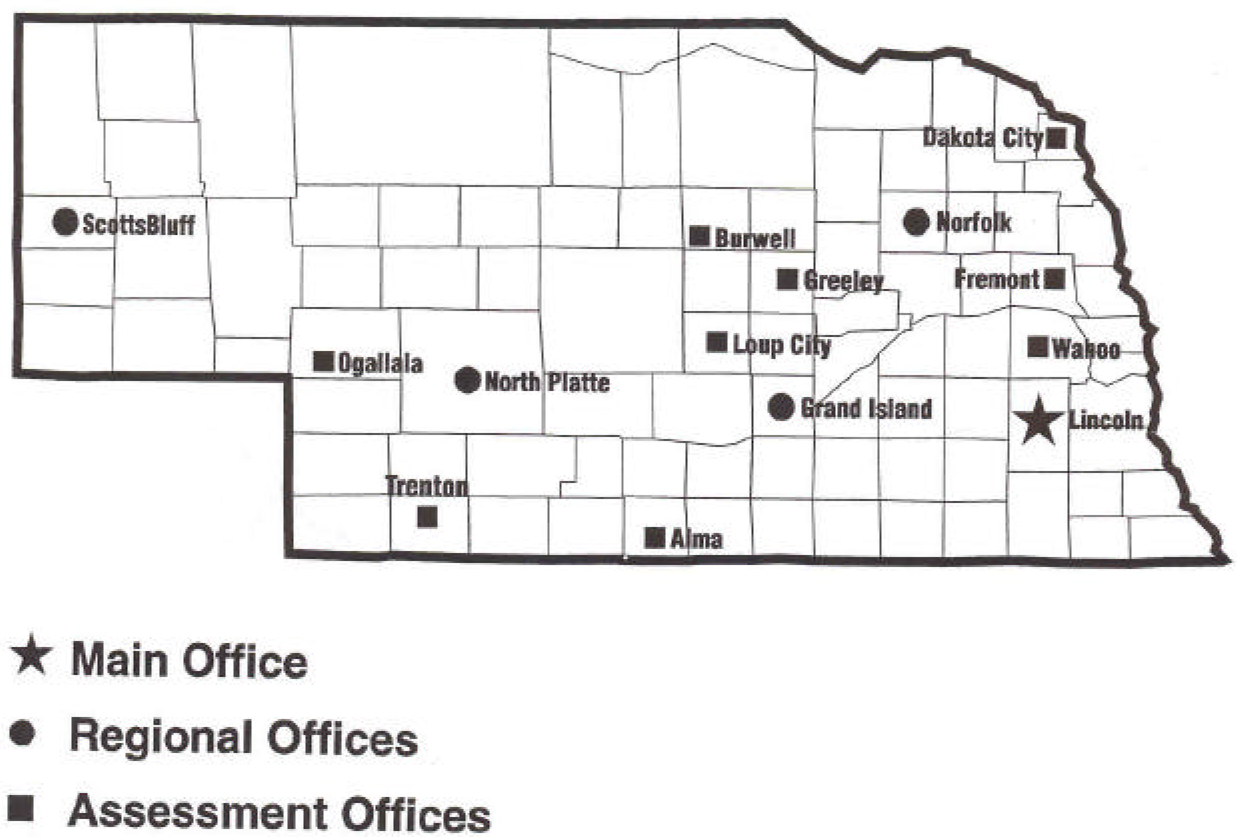
Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

All State budgetary disbursements for the General Fund and the Department of Property Assessment and Taxation Cash Fund 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 objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

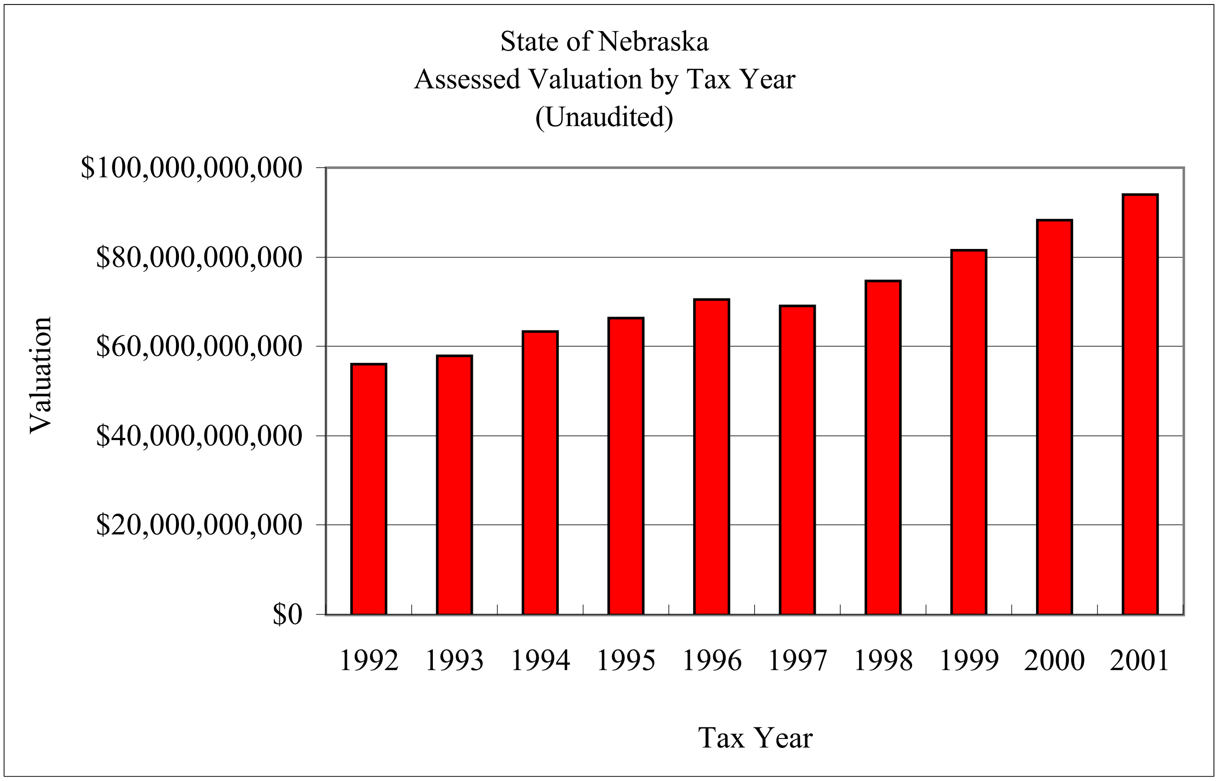
MAP OF DEPARTMENT OFFICES

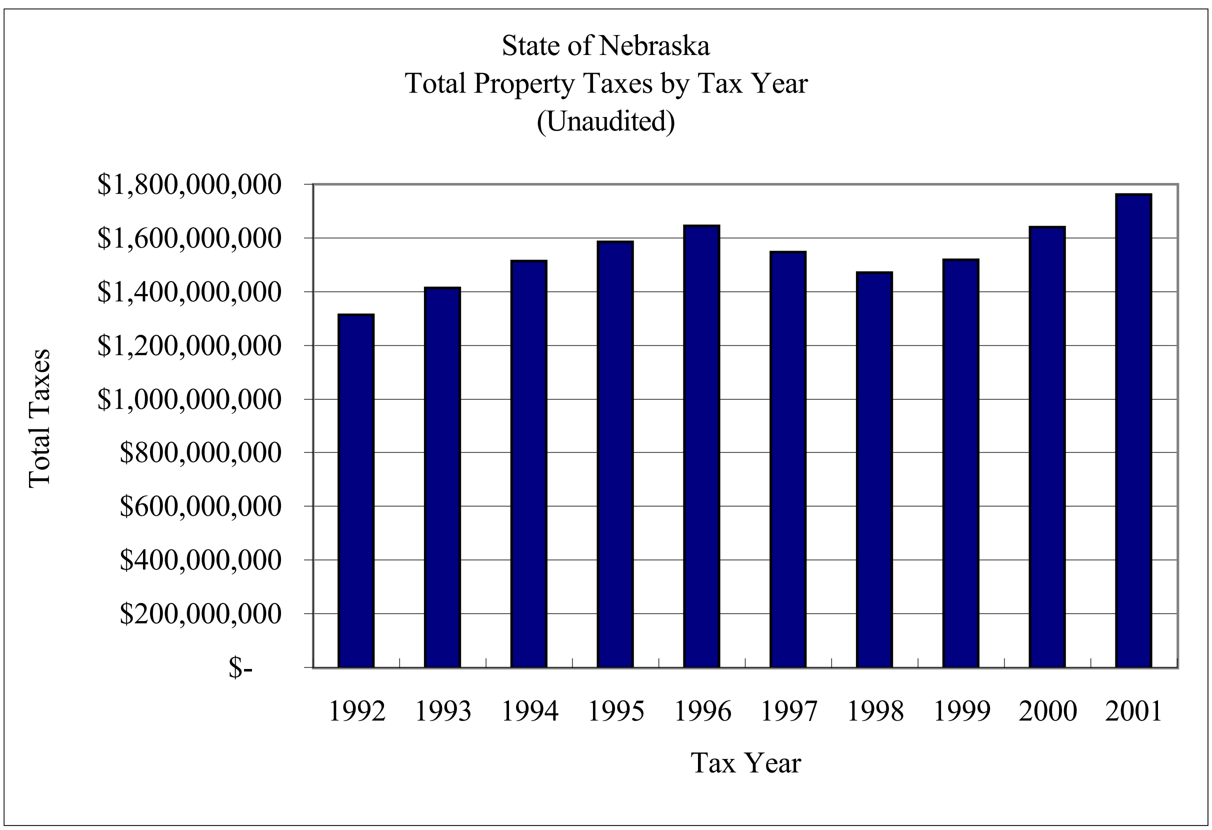


The Department has four regional offices across the State. Also, as noted in the Background, the Department has assumed the assessor function in nine counties.

NEBRASKA DEPARTMENT OF PROPERTY ASSESSMENT AND TAXATION

SCHEDULE OF ASSESSED VALUATION BY TAX YEAR AND TOTAL PROPERTY TAX BY TAX YEAR





Source: Nebraska Department of Property Assessment and Taxation 2001 Annual Report.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

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

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

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

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

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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Nebraska Department of Property Assessment and Taxation as of and for the year ended June 30, 2002, and have issued our report thereon dated May 8, 2003. 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 Department of Property Assessment and Taxation. 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 Department of Property Assessment and Taxation'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 the management of the Nebraska Department of Property Assessment and Taxation in the Comments Section of this report as Comment Number 2 (Deposits Not Timely).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Property Assessment and Taxation'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 other matters involving the internal control over financial reporting that we have reported to the management of the Nebraska Department of Property Assessment and Taxation in the Comments Section of this report as Comment Number 1 (Tax Calculation Errors) and Comment Number 3 (Internal Controls Over Fixed Assets).

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

Don Dunlap CPA

May 8, 2003 Assistant Deputy Auditor