



STATE OF NEBRASKA

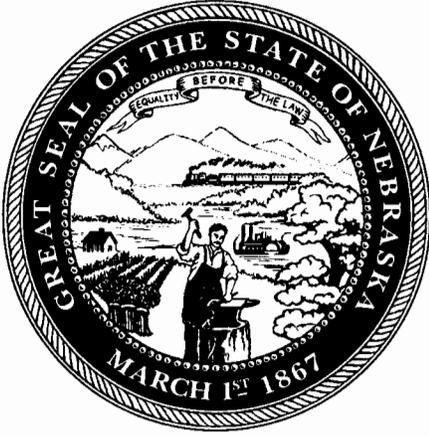
Statewide Single Audit

June 30, 2004

STATE OF NEBRASKA
 Basic Financial Statements and
 OMB Circular A-133 Compliance Reports
 Year ended June 30, 2004

TABLE OF CONTENTS

	Page
Financial Section:	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets.....	18
Statement of Activities	19
Balance Sheet—Governmental Funds.....	21
Reconciliation of the Balance Sheet—Governmental Funds to the Statement of Net Assets	22
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances— Governmental Funds to the Statement of Activities	24
Statement of Net Assets—Proprietary Funds.....	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds	26
Statement of Cash Flows—Proprietary Funds	27
Statement of Fiduciary Net Assets—Fiduciary Funds	29
Statement of Changes in Fiduciary Net Assets—Fiduciary Funds	30
Statement of Net Assets—Component Units	31
Statement of Activities—Component Units	32
Notes to the Financial Statements	33
Required Supplementary Information:	
Budgetary Comparison Schedule—General Fund	49
Budgetary Comparison Schedule—Cash Funds.....	50
Budgetary Comparison Schedule—Construction Funds.....	51
Budgetary Comparison Schedule—Federal Funds.....	52
Budgetary Comparison Schedule—Revolving Funds	53
Notes to Required Supplementary Information.....	54
Information About Infrastructure Assets Reported using the Modified Approach.....	55
Single Audit Section:	
Schedule of Expenditures of Federal Awards—by Federal Agency.....	56
Schedule of Expenditures of Federal Awards—by State Agency.....	63
Notes to the Schedule of Expenditures of Federal Awards.....	70
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	75
Schedule of Findings and Questioned Costs	78



FINANCIAL SECTION



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2004, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 12.3% and 14.9% of the assets and revenues, respectively, of the aggregate remaining fund information. The Nebraska State Lottery enterprise fund represents 4.4% and 37.9% of the assets and revenues, respectively, of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information and their effects on the business-type activities is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 15, the State of Nebraska has implemented Governmental Accounting Standards Board Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, and Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units, An Amendment of GASB 14*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2004 on our consideration of the State of Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 17; the Budgetary Comparison Schedules—General Fund, Cash, Construction, Federal and Revolving Fund Types on pages 49 through 54; the Information About Infrastructure Assets Reported Using the Modified Approach on page 55; and the Schedules of Funding Progress and Three-Year Trend Information on pages 46 and 47 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated, in all material respects, in relation to the basic financial statements.

KPMG LLP

Lincoln, Nebraska
December 22, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented new standards in 2002 required by Governmental Accounting Standards Board (GASB) Statement No. 34 and related statements. As discussed in Note 15 to the financial statements, in 2004 the State implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, An Amendment of GASB 14*. The State also implemented GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

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

FINANCIAL HIGHLIGHTS

Government-Wide:

The assets of the State exceeded its liabilities at June 30, 2004 by \$8.7 billion (presented as "net assets" in the CAFR). The majority of the net assets are represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, "unrestricted net assets" was reported as \$438 million, much of which is, by statute, to be spent on nursing facilities, medical assistance programs and tobacco prevention and control. The primary government's net revenues exceeded net expenses for 2004 by \$448 million (thus, an increase in net assets). The increase in net assets was primarily a result of a more favorable economy causing an increase in taxes collected coupled with an actual reduction of expenditures from 2003.

Fund Level:

General Fund receipts for 2004 were \$13 million below the original budgeted amount. However, such receipts were above the final budget by \$109 million. Expenditures were also down \$156 million from the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$208 million in excess revenues prior to \$17 million in other financing sources (uses) resulting in an ending fund balance on June 30, 2004 of \$208 million. Other governmental funds had \$152 million in excess revenues prior to other financing sources (uses) increasing such fund balances at June 30, 2004 to \$1,484 million.

The \$183 million of net assets of the Unemployment Compensation Fund represents ninety percent of the proprietary funds. Such fund only had a \$10 million decrease in net assets for 2004 (compared to a \$27 million decrease in 2003) due to a slight decrease in unemployment claims and additional revenue from customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Liabilities:

Long-term liabilities totaled \$ 636 million at June 30, 2004, which is a small change from the prior year. Most of these liabilities consist of (1) \$284 million of claims payable for workers' compensation claims, medical excess liability, unemployment compensation claims, employee health insurance claims, among other claims, (2) \$177 million of Medicaid claims, and (3) the calculated amount for vested sick leave due employees when they retire and accrued vacation, totaling \$109 million. Debt related to capital assets totaled \$54 million at June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This CAFR also contains other supplementary information (e.g., budgetary schedules and combining financial statements) in addition to the basic financial statements. These components are described below:

Government-Wide Financial Statements

These statements provide a broad view of the State's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the State's financial position. The statements are prepared using the accrual basis of accounting. This means all revenues and expenses related to the fiscal year are recorded in the statements, even if cash has not been received or paid. If taxes are owed to the State but not yet received, such transaction is recorded as an asset (a receivable) and revenue to the State. Likewise, if the State owes for vacation time, but has not yet paid the worker for such vacation earned, then the liability and payroll expense is recorded. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* (page 33) presents all the State's assets and liabilities with the difference between the two reported as "Net Assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* (pages 34 and 35) presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units. Fiduciary Funds, which include the Pension Funds, are not included in the Government-wide Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Primary Government

GOVERNMENTAL ACTIVITIES – Activities in this section are mostly supported by taxes and federal grants. All General Fund activity is included here. Governmental activities represent over 95% of all activity of the primary government. It includes general government; education; health and human services; public safety; transportation; regulatory services; and economic development and assistance.

BUSINESS-TYPE ACTIVITIES – Functions reported in this section include those activities whereby the State charges fees and other charges to external users of the State's services and purchasers of State's goods in order to recover all or a significant portion of the State's operating costs related to these activities, much like a private business. Such activities are unemployment compensation services, lottery tickets, premium surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

DISCRETELY PRESENTED COMPONENT UNITS – These are separate organizations for which the State has financial accountability but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State's only two discretely presented component units. While presented in this report, each of these two units have separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State's operations. As previously noted, these Statements are commonly referred to as GAAP Fund Statements, as they are prepared in accordance with generally accepted accounting principles. The Fund Financial Statements (which begin on page 36) provide detailed information about the State's major funds. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. The State's funds are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. It is important to note that each of these three fund categories use different accounting approaches and should be analyzed differently.

Governmental Funds Financial Statements – Most of the basic services provided by the State are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, the Governmental Funds Financial Statements use modified accrual accounting, which limits assets to cash and all other financial assets that can readily be converted into cash. This is different from the governmental activities recorded in the government-wide financial statements that use full accrual accounting. These fund statements provide a detailed short-term view of the State's finances that assist the reader in determining whether or not there will be adequate financial resources to meet the current needs of the State.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader can better understand the long-term impact of the State's near-term financing decisions. To aid the reader in such analysis, reconciliations are provided between the Government-wide Financial Statements and the Governmental Funds Financial Statements (see pages 37 and 39).

The State of Nebraska's governmental funds include five major funds: the General Fund, the Highway Fund, the Federal Fund, the Health and Social Services Fund and the Permanent School Fund. Non-major special revenue, capital project and other permanent funds are also included in the governmental funds.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Thus, when the State charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds consist of both Enterprise Funds (services provided to outside customers) and Internal Service Funds (services provided to other State agencies). Proprietary funds utilize accrual accounting, the same method used by private businesses. Therefore, the net assets reported in these statements as Enterprise Funds will be identical to the net assets reported in the net assets for business-type activities in the Government-wide Financial Statements. However, because the Internal Service Funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

Fiduciary Funds Financial Statements – Whenever the State receives funds on behalf of others, it is acting in a fiduciary capacity or trustee of those funds belonging to others. Thus, assets in these funds are restricted as to use and do not represent discretionary assets that the State could use to finance its operations. They are presented in these statements only for the purpose to indicate that the State has responsibility for these assets. For that reason, such assets are not included in the government-wide financial statements. Fiduciary funds are reported on the accrual basis of accounting.

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for state employees, county employees and public school employees (see Note 11 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions and funds due to outside organizations as a result of payroll deductions.

Component Units Financial Statements

As mentioned in the discussion of the Government-wide Financial Statements, the State has included the net assets and activities of the University of Nebraska and the Nebraska State College System in a single column of such statements, labeling them as discretely presented component units. We have provided separate, but brief, component unit statements to allow the reader to analyze each of these two units separately.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements beginning on page 48.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

Following the basic financial statements, and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the fund balances determined by GAAP used in the Fund Financial Statements for the General Fund, Cash Funds, Construction Funds, Federal Funds, and Revolving Funds. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes the combining statements for non-major governmental, proprietary and fiduciary funds. These funds are summarized by fund type and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the Governmental Fund Financial Statements. Also presented is a statistical section providing a variety of data about the State.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$10,236 million at June 30, 2004 as compared to \$9,679 at June 30, 2003. As total liabilities only totaled \$1,575 million, net assets amounted to \$8,661 million as of June 30, 2004. As of June 30, 2003, these amounts were \$1,466 million and \$8,213 million, respectively. By far the largest portion of the State of Nebraska's net assets (81 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, etc.). The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF NEBRASKA
Net Assets as of June 30
(in millions of dollars)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and Other						
Non-current Assets	\$ 2,905	\$ 2,405	\$ 297	\$ 311	\$ 3,202	\$ 2,716
Capital Assets	<u>7,028</u>	<u>6,956</u>	<u>6</u>	<u>7</u>	<u>7,034</u>	<u>6,963</u>
Total Assets	<u>9,933</u>	<u>9,361</u>	<u>303</u>	<u>318</u>	<u>10,236</u>	<u>9,679</u>
Non-current Liabilities	568	560	68	70	636	630
Other Liabilities	<u>908</u>	<u>805</u>	<u>31</u>	<u>31</u>	<u>939</u>	<u>836</u>
Total Liabilities	<u>1,476</u>	<u>1,365</u>	<u>99</u>	<u>101</u>	<u>1,575</u>	<u>1,466</u>
Net assets:						
Invested in Capital Assets,						
Net of Related Debt	6,980	6,909	6	7	6,986	6,916
Restricted	1,051	933	185	196	1,236	1,129
Unrestricted	<u>426</u>	<u>154</u>	<u>13</u>	<u>14</u>	<u>439</u>	<u>168</u>
Total Net Assets	<u>\$ 8,457</u>	<u>\$ 7,996</u>	<u>\$ 204</u>	<u>\$ 217</u>	<u>\$ 8,661</u>	<u>\$ 8,213</u>

The State's non-capital assets represent 31% of the State's total assets and chiefly consist of cash, investments and receivables. It should be noted that \$374 million in 2004 and \$245 million in 2003 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.)

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities). The majority of such liabilities are for claims payable for workers' compensation claims, medical excess liability, unemployment compensation claims, employee health insurance claims, among other claims (\$284 million for 2004 and \$285 million for 2003), Medicaid claims for \$177 million (\$167 million in 2003) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$109 million of 2004 (\$107 million for 2003). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 9 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds. Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements).

At the end of June 30, 2004, the State is able to report positive balances in all of the three categories of net assets.

The net assets for business-type activities represents chiefly cash set aside for future unemployment compensation benefits.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year. Following that table is management's analysis of the changes in net assets for 2004, analyzing both the governmental activities and the business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 523	\$ 488	\$ 245	\$ 216	\$ 768	\$ 704
Operating Grants and Contributions	2,147	1,801	-	-	2,147	1,801
Capital Grants and Contributions	6	5	-	-	6	5
General Revenues						
Taxes	3,220	2,960	-	-	3,220	2,960
Unrestricted Investment Earnings	86	74	15	17	101	91
Miscellaneous	13	12	-	-	13	12
Total Revenues	<u>5,995</u>	<u>5,340</u>	<u>260</u>	<u>233</u>	<u>6,255</u>	<u>5,573</u>
EXPENSES						
General Government	178	283	-	-	178	283
Conservation of Natural Resources	92	88	-	-	92	88
Culture - Recreation	20	28	-	-	20	28
Economic Development and Assistance	80	84	-	-	80	84
Education	1,201	1,216	-	-	1,201	1,216
Higher Education - Colleges and Universities	438	461	-	-	438	461
Health and Social Services	2,330	2,220	-	-	2,330	2,220
Public Safety	254	238	-	-	254	238
Regulation of Business and Professions	127	117	-	-	127	117
Transportation	716	626	-	-	716	626
Intergovernmental	116	121	-	-	116	121
Interest on Long-term Debt	3	4	-	-	3	4
Unemployment Compensation	-	-	156	161	156	161
Lottery	-	-	73	61	73	61
Excess Liability	-	-	15	14	15	14
Cornhusker State Industries	-	-	8	6	8	6
Total Expenses	<u>5,555</u>	<u>5,486</u>	<u>252</u>	<u>242</u>	<u>5,807</u>	<u>5,728</u>
Excess (deficiency) Before Transfers	440	(146)	8	(9)	448	(155)
Transfers	21	20	(21)	(20)	-	-
Increase (Decrease) in Net Assets	461	(126)	(13)	(29)	448	(155)
Net Assets - Beginning - Restated	7,996	8,122	217	246	8,213	8,368
Net Assets - Ending	<u>\$ 8,457</u>	<u>\$ 7,996</u>	<u>\$ 204</u>	<u>\$ 217</u>	<u>\$ 8,661</u>	<u>\$ 8,213</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

Governmental activities increased the State's net assets by \$461 million in 2004 (such activities reduced the net assets by \$126 million in 2003). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,676 million and were used to partially offset program expenses of \$5,555 million, leaving net expenses of \$2,879 million. Only 3% of total expenses were spent on general government expenses. General taxes, earnings and transfers of \$3,340 million were used to cover most of the remaining costs of the programs as shown below.

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	<u>2004</u>	<u>2003</u>
General Government	\$ (83)	\$ (194)
Conservation of Natural Resources	(9)	(23)
Culture - Recreation	(3)	(9)
Economic Development and Assistance	(19)	(22)
Education	(922)	(958)
Higher Education - Colleges and University	(438)	(461)
Health and Social Services	(766)	(896)
Public Safety	(160)	(173)
Regulation of Business and Professions	(8)	(2)
Transportation	(367)	(343)
Intergovernmental	(101)	(107)
Interest on Long-Term Debt	(3)	(4)
Subtotal	<u>(2,879)</u>	<u>(3,192)</u>
General Revenues		
Taxes	3,220	2,960
Unrestricted Investment Earnings	86	74
Miscellaneous	13	12
Transfers	21	20
Increase (Decrease) in Net Assets	<u>\$ 461</u>	<u>\$ (126)</u>

Business-type Activities

The business-type activities reduced the State's net assets by \$13 million for 2004 after a \$21 million transfer to the governmental activities. Most of the \$244 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Compensation Fund and Lottery Fund revenues. The Unemployment Compensation Fund had an operating loss of \$24 million in 2004. This loss and the net loss of \$5 million incurred in the Excess Liability Fund were partially offset by \$15 million in investment income and \$2 million in net revenues from Cornhusker State Industries. Lottery revenues of \$93 million generated net revenue of \$19 million, which was offset by the \$21 million transfer to the Governmental Activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be designated or undesignated. If they are designated, they are unreserved only as long as they are used for the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in designated funds.) At the end of 2004, the State's Governmental Funds reported combined ending fund balances of \$1,692 million. The total unreserved balances amounted to \$1,343 million.

General Fund

The General Fund is the chief operating fund of the State. The major General Fund liability was the estimated tax refunds payable of \$252 million. Such refunds payable were only \$3 million less than the expected taxes owed the State. Other assets of the General Fund available to pay near-term liabilities exceeded such liabilities by \$205 million.

On June 30, 2003, the General Fund had a negative fund balance of \$17 million. As had occurred in 2003, reduction in spending continued in 2004 due to the lower than anticipated revenues due to the slow economy. In fact, expenditures for 2004 actually were \$90 million less than in 2003. However, as opposed to 2003, revenues for 2004 increased significantly over 2003 by \$261 million. The reduction in expenditures along with the increased revenues resulted in an increase in fund balance of \$208 million in 2004, which was significantly better than the \$143 million decrease that occurred in 2003. This \$208 million increase in 2004, coupled with \$17 million of other financing sources, caused the General Fund balance to increase by \$225 million, ending with a fund balance of \$208 million.

Revenues in 2004 were more than anticipated and were up \$261 million over 2003 chiefly due to (1) increased corporate income taxes because of increased revenues and companies had less losses to write off, (2) increased individual income tax revenue resulting from the effect of less capital losses being reported and increased revenues by farmers and small business owners, and (3) increased sales taxes collected because of increased retail sales and the continuing effect of the increased sales tax base. Expenditures were less than budgeted due to a concerted effort by agency heads responding to the Governor's message to be conservative in spending in addition to mandated cuts.

In 2002 and 2003, the revenues of the State were less than projected. To compensate for downturns such as this, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in

MANAGEMENT'S DISCUSSION AND ANALYSIS

the General Fund cash account to do so. Such reserve was at \$110 million at the beginning of 2003. During 2003, increases in certain taxes boosted the Cash Reserve Fund by \$37 million. An additional \$29 million, received from the federal government to help offset the State's economic losses, was temporarily placed in the Cash Reserve. However, due to transfers and loans to the General Fund cash account totaling \$117 million, this balance was reduced to \$59 million at the start of 2004. In 2004, because of the increased revenues, the General Fund was able to repay the \$30 million that was borrowed from the Cash Reserve in 2003. Cigarette tax revenues of \$27 million were placed into the Cash Reserve in 2004 and the \$29 million of federal funds was transferred to the General Fund cash account, leaving a Cash Reserve Fund balance at the end of 2004 of \$87 million. Due to the fact that 2004 revenues exceeded the forecast, a statutory requirement caused a \$109 million transfer from the General Fund cash account to the Cash Reserve Fund in July 2004.

Expenditures in 2004 in the General Fund were not only less than budgeted, they were \$90 million less than 2003 in actual dollars spent, chiefly due to reduced spending across all categories of expenditures, including education (\$23 million), higher education (\$23 million) and health and social services (\$25 million).

Other Governmental Funds

Other governmental fund balances totaled \$1,484 million at June 30, 2004; \$348 million of such fund balances is reserved to indicate that they are not available for new spending because such funds (1) are represented by endowment principal (\$167 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$164 million), (3) have been expended for other assets, chiefly inventories (\$11 million) and thus the funds are not available, or (4) have been committed for debt service (\$6 million).

Of the non-General Fund unreserved fund balances of \$1,136 million, \$204 million represents permanent school funds which can be used only for support of public schools. \$879 million is represented by special revenue funds which while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered "restricted" on the government-wide financial statements). Twenty-one million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Thirty-two million dollars is in the Capital Projects Fund, which, while unreserved, must be spent on a capital projects.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of \$503 million. Of this balance, \$489 million is classified as unreserved, but which are restricted in the government-wide statements in that the funds are unreserved only within the confines of such funds.

Governmental funds other than the General Fund saw an increase in fund balances of \$158 million. The fund balances of all such funds increased: the Highway Fund (\$2 million), the Federal Fund (\$7 million), the Health and Social Service Fund (\$80 million), the Permanent School Fund (\$37 million and other Nonmajor Funds (\$31 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Highway Fund had \$73 million increase in federal funds. This more than offset the \$43 million increase in operating expenses (a 6% increase) and \$14 million less in fees and investment income. The Highway Fund also did not have the \$14 million sales tax transfer to the General Fund in 2004, which was the major cause of a \$17 million decrease in fund balance in 2003. These were the major reasons the Highway Fund had a \$2 million increase in fund balance from the prior year.

The Federal Fund received \$280 million increase in federal grants and contracts, an 18% increase over 2003. Because of such increased revenues, there were related expenditures spent in accordance with the terms of the grants and contracts of \$251 million. There was also an additional \$5 million transferred out in 2004. Even though there was much more grant activity, at the end of 2004 there was only a net increase in the Fund of \$7 million, a \$22 million swing from the \$15 million decrease in the fund in 2003.

The Health and Social Services Fund had an increase in investment income in 2004 of \$25 million (mostly due to market fluctuations), a \$59 million decrease in expenditures chiefly due to a significant reductions in a disallowance accrual, along with an increase in other revenue of \$24 million, resulted in a \$107 million increase in net revenues when compared to 2003. The year 2003 had net expenses of \$27 million, whereas in 2004 the fund balance was increased by \$80 million.

The Permanent School Funds had a \$16 million improvement of investment earnings, earning about 8% in 2004 (a full 3% better than last year) which was the main reason the fund balances increased \$17 million more than last year, when the fund balance increased \$20 million. Other costs and revenues remained relatively stable. The Fund balance at the end of 2004 was up \$37 million.

The Nonmajor Funds were mostly stable from 2003 to 2004, except for \$14 million less in transfers out in 2004. In 2003 the Fund balance increased \$20 million; in 2004 it increased \$31 million, chiefly due to the above-mentioned reduction in transfers.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets increased \$894 million to \$6,419 million in 2004 due primarily to the robust market in 2004, which provided \$748 million in appreciation of investments. Investment income in 2004 was \$106 million versus \$103 million in 2003. Contributions to the plans exceeded benefits, refunds and related administrative expenses by \$48 million. In another trust fund, \$322 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in the College Savings Plan now total \$777 million.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements under Business-type Activities, but in more detail. The State's one major proprietary fund, the Unemployment Compensation Fund, had reported net assets of \$183 million at the end of 2004. This fund's net assets decreased \$10 million in 2004, due to unemployment claims paid out which exceeded the charges to customers by \$24 million which was half covered by investment income. Other proprietary or enterprise funds – the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$18 million prior to an \$21 million transfer from the Lottery to governmental funds primarily for education and environmental studies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2004, the State began to reap the benefits of the improving national economy. Forecasted revenues, upon which the State's budgeted expenses were based, had anticipated a continuation of the recession. However, the State exceeded the revised projected tax revenues of \$ 2,565 million by \$109 million, realizing actual tax revenues of \$ 2,674 million. Because the revenues did not come in as expected early in 2004, the State's Forecasting Board continually made new forecasts, each time reducing the expected revenues. However, as the year unfolded and the time came for final tax payments to be made (as opposed to the estimated taxes that had been remitted based upon the lower taxes that were due in the prior year), revenues began to pick up at an accelerated pace. Nonetheless, throughout the year, agencies were encouraged to spend less than their appropriations. General fund spending ended up \$92 million less than the appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2004 with \$201 million of revenues in excess of expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the State had invested \$7 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation expense for 2004 totaled \$52 million, compared to \$43 million for 2003.

GASB Statement No. 34 requires the State to select one of two methods to account for its infrastructure assets. One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

The State has consistently maintained a high level of the assessed condition of roads over the past five years. The State's goal is to maintain at least an overall system rating of 72 percent or above. The most recent condition assessment, completed for calendar year 2003, indicated an overall system rating of 83%, the same rating from the prior year.

For 2004, it was estimated that the State needed to spend \$179 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$200 million on roads in 2004, compared to \$199 million in 2003. For 2005, it is estimated that the State needs to spend \$123 million, a considerable reduction from the past three years.

During 2004, the State added \$42 million of new depreciable capital assets. The State spent \$88 million on infrastructure and land purchases in 2004, most notably reconstructing (a) Highway 75 from Nebraska City south, (b) Highway 34 in Lincoln, (c) Highway 6 from Gretna south, and (d) Highway 81 around Strang and Geneva. This compares to \$120 million spent in 2003. Nineteen million of governmental funds were spent on capital projects in 2004 compared to twenty-eight million in 2003. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2004, the State had contractual commitments of \$465 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the financial statements.)

The State's General Fund capital outlay budget authorized spending \$19 million on capital projects in 2005, in addition to \$3 million of unspent capital outlay authorizations that existed on June 30, 2004.

Long-Term Debt

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

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

	GOVERNMENTAL ACTIVITIES	
	2004	2003
<u>Bonds Payable:</u>		
Nebraska State Building Corporation	\$ 3	\$ 4
NETC Leasing Corp	24	27
	27	31
 <u>Capitalized Leases:</u>		
	\$ 27	\$ 30

There were no new bonds issued in 2004 or 2003. There was only one small capitalized lease added in each of 2004 and 2003, which were more than offset by debt repayments. Bonds and Certificates of Participation for leases issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's.

FACTORS THAT WILL AFFECT THE FUTURE

Nebraska farm income has greatly improved and the economy has begun a measured turnaround. The ½ cent increase in the sales tax rate has been made permanent. The permanent increase in cigarette taxes will also continue to boost the State's cash position.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2004, this Fund had an \$87 million balance. Factors affecting the June 30, 2005 Cash Reserve Fund include legislative mandated net transfers to the General Fund of \$26 million, and revenues from cigarette taxes of \$8 million (such legislatively mandated transfers ended on September-30, 2004). In July 2004, \$109 million was transferred from the General Fund to the Cash Reserve Fund as statutorily required, due to the 2004 revenues exceeding the 2004 forecasted revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE STATE ACCOUNTING OFFICE

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional information, contact the State Accounting Division of the Department of Administrative Services, Suite 1309 State Capitol, Lincoln, NE 68509-4664 (402) 471-2581.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component units. For the University of Nebraska, contact the University of Nebraska, Director of University Accounting, 209 Varner Hall, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2191. For the State College System, contact the Nebraska State College System, Fiscal and Facilities Management, 11th Floor State Capitol, Lincoln, NE 68509-4605 (402) 471-2505.

BASIC FINANCIAL STATEMENTS



State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2004

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 248,220	\$ 171,925	\$ 420,145	\$ 221,383
Receivables, net of allowance				
Taxes	297,682	-	297,682	-
Due from Federal Government	259,735	-	259,735	-
Other	93,681	29,911	123,592	94,388
Internal Balances	505	(505)	-	-
Due from Primary Government	-	-	-	1,609
Investments	1,449,372	73,769	1,523,141	1,181,626
Loans Receivable	163,739	-	163,739	39,016
Investment in Joint Venture	-	-	-	147,866
Other Assets	15,514	2,421	17,935	53,003
Restricted Assets:				
Cash and Cash Equivalents	19,676	-	19,676	414,742
Other	-	1,712	1,712	1,354
Securities Lending Collateral	357,101	17,213	374,314	-
Capital assets:				
Land	472,775	315	473,090	48,901
Infrastructure	6,155,691	-	6,155,691	98,159
Construction in Progress	55,288	-	55,288	100,893
Buildings and Equipment	763,357	10,398	773,755	1,375,131
Less Accumulated Depreciation	(418,928)	(4,289)	(423,217)	(528,369)
Total Capital Assets, net of depreciation	<u>7,028,183</u>	<u>6,424</u>	<u>7,034,607</u>	<u>1,094,715</u>
Total Assets	<u>\$ 9,933,408</u>	<u>\$ 302,870</u>	<u>\$ 10,236,278</u>	<u>\$ 3,249,702</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 258,722	\$ 9,652	\$ 268,374	\$ 115,576
Tax Refunds Payable	257,899	-	257,899	-
Due to Other Governments	12,936	-	12,936	-
Deposits	4,641	-	4,641	12,864
Due to Component Units	1,609	-	1,609	-
Deferred Revenue	15,056	4,733	19,789	64,889
Obligations under Securities Lending	357,101	17,213	374,314	-
Noncurrent Liabilities:				
Due within one year	222,862	28,085	250,947	43,564
Due in more than one year	345,559	39,506	385,065	465,467
Total Liabilities	<u>\$ 1,476,385</u>	<u>\$ 99,189</u>	<u>\$ 1,575,574</u>	<u>\$ 702,360</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 6,980,310	\$ 6,424	\$ 6,986,734	\$ 628,140
Restricted for:				
Education	10,233	-	10,233	120,274
Health and Social Services	52,121	-	52,121	-
Transportation	87,950	-	87,950	-
Licensing and Regulation	123,749	-	123,749	-
Other Purposes	378,956	1,712	380,668	1,327,433
Unemployment Compensation Benefits	-	182,953	182,953	-
Debt Service and Construction	5,637	-	5,637	233,448
Permanent Trusts:				
Nonexpendable	167,387	-	167,387	-
Expendable	224,869	-	224,869	-
Unrestricted	425,811	12,592	438,403	238,047
Total Net Assets	<u>\$ 8,457,023</u>	<u>\$ 203,681</u>	<u>\$ 8,660,704</u>	<u>\$ 2,547,342</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 177,995	\$ 48,999	\$ 45,777	\$ -
Conservation of Natural Resources	91,996	31,909	50,929	251
Culture – Recreation	20,352	15,544	1,360	-
Economic Development and Assistance	80,417	3,551	57,961	-
Education	1,201,349	35,140	243,824	460
Higher Education - Colleges and University	438,225	-	-	-
Health and Social Services	2,329,940	152,240	1,412,130	-
Public Safety	254,085	26,077	62,155	5,711
Regulation of Business and Professions	126,978	116,772	1,490	-
Transportation	715,553	77,630	271,093	-
Intergovernmental	115,591	14,920	-	-
Interest on Long-term Debt	3,018	-	-	-
Total governmental activities	<u>5,555,499</u>	<u>522,782</u>	<u>2,146,719</u>	<u>6,422</u>
Business-type activities:				
Unemployment Compensation	156,172	132,379	-	-
Lottery	73,264	92,608	-	-
Excess Liability	14,595	9,683	-	-
Cornhusker State Industries	7,868	9,598	-	-
Total business-type activities	<u>251,899</u>	<u>244,268</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,807,398</u>	<u>\$ 767,050</u>	<u>\$ 2,146,719</u>	<u>\$ 6,422</u>
COMPONENT UNITS:				
University of Nebraska	\$ 1,290,350	\$ 492,128	\$ 333,507	\$ 3,127
State Colleges	67,936	21,952	10,966	975
Total Component Units	<u>\$ 1,358,286</u>	<u>\$ 514,080</u>	<u>\$ 344,473</u>	<u>\$ 4,102</u>

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning - Restated
Net Assets - Ending

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

**NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS**

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (83,219)	\$ -	\$ (83,219)	\$ -
(8,907)	-	(8,907)	-
(3,448)	-	(3,448)	-
(18,905)	-	(18,905)	-
(921,925)	-	(921,925)	-
(438,225)	-	(438,225)	-
(765,570)	-	(765,570)	-
(160,142)	-	(160,142)	-
(8,716)	-	(8,716)	-
(366,830)	-	(366,830)	-
(100,671)	-	(100,671)	-
(3,018)	-	(3,018)	-
<u>(2,879,576)</u>	<u>-</u>	<u>(2,879,576)</u>	<u>-</u>
-	(23,793)	(23,793)	-
-	19,344	19,344	-
-	(4,912)	(4,912)	-
<u>-</u>	<u>1,730</u>	<u>1,730</u>	<u>-</u>
<u>-</u>	<u>(7,631)</u>	<u>(7,631)</u>	<u>-</u>
<u>-</u>	<u>(7,631)</u>	<u>(2,887,207)</u>	<u>-</u>
-	-	-	(461,588)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,043)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(495,631)</u>
1,400,161	-	1,400,161	-
1,284,260	-	1,284,260	-
313,539	-	313,539	-
122,462	-	122,462	-
67,322	-	67,322	-
33,089	-	33,089	-
86,502	15,183	101,685	54,301
1,055	(3)	1,052	207,258
-	-	-	438,225
11,715	-	11,715	-
20,591	(20,591)	-	-
<u>3,340,696</u>	<u>(5,411)</u>	<u>3,335,285</u>	<u>699,784</u>
461,120	(13,042)	448,078	204,153
<u>7,995,903</u>	<u>216,723</u>	<u>8,212,626</u>	<u>2,343,189</u>
<u>\$ 8,457,023</u>	<u>\$ 203,681</u>	<u>\$ 8,660,704</u>	<u>\$ 2,547,342</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2004

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 43,979	\$ 15,102	\$ 39,895	\$ 6,522	\$ 9,551	\$ 67,771	\$ 182,820
Cash on Deposit with Fiscal Agents	-	-	-	-	-	19,676	19,676
Investments	260,928	93,178	2,666	353,814	345,379	393,407	1,449,372
Securities Lending Collateral	103,686	37,027	1,656	23,711	45,801	145,220	357,101
Receivables, net of allowance							
Taxes	254,540	42,920	-	-	-	222	297,682
Due from Federal Government	-	30,402	228,810	-	-	523	259,735
Loans	223	-	2,520	730	-	160,266	163,739
Other	18,716	3,481	32,713	25,473	1,570	8,492	90,445
Due from Other Funds	110,215	631	3,758	9,251	-	3,264	127,119
Inventories	252	9,719	1,798	454	-	-	12,223
Prepaid Items	50	10	248	2	-	178	488
Other	876	-	-	-	-	834	1,710
TOTAL ASSETS	<u>\$ 793,465</u>	<u>\$ 232,470</u>	<u>\$ 314,064</u>	<u>\$ 419,957</u>	<u>\$ 402,301</u>	<u>\$ 799,853</u>	<u>\$ 2,962,110</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 74,499	\$ 50,369	\$ 67,167	\$ 20,815	\$ 164	\$ 20,293	\$ 233,307
Tax Refunds Payable	251,528	6,371	-	-	-	-	257,899
Due to Other Governments	3,657	8,512	-	-	-	\$ 767	12,936
Deposits	878	605	1,736	230	81	1,111	4,641
Due to Other Funds	56,691	103	124,147	1,666	21	4,039	186,667
Due to Component Units	1,609	-	-	-	-	-	1,609
Obligations under Securities Lending	103,686	37,027	1,656	23,711	45,801	145,220	357,101
Claims Payable	81,665	-	92,870	-	-	-	174,535
Deferred Revenue	11,445	-	7,471	18,758	4,158	-	41,832
TOTAL LIABILITIES	<u>585,658</u>	<u>102,987</u>	<u>295,047</u>	<u>65,180</u>	<u>50,225</u>	<u>171,430</u>	<u>1,270,527</u>
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	223	-	2,520	730	-	160,266	163,739
Inventories and Prepaid Items	302	9,729	248	456	-	178	10,913
Debt Service	-	-	-	-	-	6,146	6,146
Endowment Principal	-	-	-	-	147,826	19,561	167,387
Unreserved, reported in:							
General Fund	207,282	-	-	-	-	-	207,282
Special Revenue Funds	-	119,754	16,249	353,591	-	389,447	879,041
Permanent Funds	-	-	-	-	204,250	20,619	224,869
Capital Projects Fund	-	-	-	-	-	32,206	32,206
TOTAL FUND BALANCES	<u>207,807</u>	<u>129,483</u>	<u>19,017</u>	<u>354,777</u>	<u>352,076</u>	<u>628,423</u>	<u>1,691,583</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 793,465</u>	<u>\$ 232,470</u>	<u>\$ 314,064</u>	<u>\$ 419,957</u>	<u>\$ 402,301</u>	<u>\$ 799,853</u>	<u>\$ 2,962,110</u>

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

State of Nebraska

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

June 30, 2004

(Dollars in Thousands)

Total fund balances for governmental funds **\$ 1,691,583**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	472,775	
Infrastructure	6,155,691	
Construction in progress	55,288	
Other capital assets	707,641	
Accumulated depreciation	<u>(380,751)</u>	7,010,644

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 27,167

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 52,749

Certain long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(27,265)	
Accrued interest on bonds	(509)	
Capital leases	(22,544)	
Obligations under other financing arrangements	(11,230)	
Compensated absences	(104,719)	
Claims and judgments	(158,741)	
Pension benefit obligation	<u>(112)</u>	<u>(325,120)</u>

Net assets of governmental activities **\$ 8,457,023**

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

State of Nebraska
**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$ 1,402,371	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,402,371
Sales and Use Taxes	1,129,421	151,315	-	-	-	2,856	1,283,592
Petroleum Taxes	7,287	291,352	-	-	1,581	13,319	313,539
Excise Taxes	76,170	-	-	5,233	-	40,917	122,320
Business and Franchise Taxes	49,454	-	-	-	-	17,868	67,322
Other Taxes	26,532	2,207	-	-	-	4,350	33,089
Federal Grants and Contracts	29,223	256,718	1,833,076	637	-	33,487	2,153,141
Licenses, Fees and Permits	18,677	65,165	130	4,330	1,197	93,815	183,314
Charges for Services	2,466	8,257	16,723	32,279	-	22,595	82,320
Investment Income	4,934	(267)	1,934	36,380	32,295	8,426	83,702
Rents and Royalties	-	334	122	472	21,595	17,322	39,845
Surcharge	-	-	-	-	-	59,390	59,390
Other	3,470	4,141	1,732	97,321	12,940	43,583	163,187
TOTAL REVENUES	2,750,005	779,222	1,853,717	176,652	69,608	357,928	5,987,132
EXPENDITURES:							
Current:							
General Government	98,137	-	2,074	-	-	24,461	124,672
Conservation of Natural Resources	25,599	-	27,812	-	-	39,271	92,682
Culture - Recreation	5,040	-	1,313	-	-	19,728	26,081
Economic Development and Assistance	5,108	-	61,093	-	-	14,330	80,531
Education	903,268	-	243,258	-	32,655	24,249	1,203,430
Higher Education - Colleges and University	424,084	-	-	-	-	14,141	438,225
Health and Social Services	809,714	-	1,429,794	95,836	-	1,994	2,337,338
Public Safety	170,691	-	63,871	-	-	27,782	262,344
Regulation of Business and Professions	3,567	-	1,731	-	-	121,781	127,079
Transportation	823	775,511	-	-	-	18,008	794,342
Intergovernmental	96,363	-	-	-	-	19,319	115,682
Capital Projects	-	-	-	-	-	19,162	19,162
Debt Service:							
Principal	-	-	-	-	-	4,145	4,145
Interest	-	-	-	-	-	1,971	1,971
TOTAL EXPENDITURES	2,542,394	775,511	1,830,946	95,836	32,655	350,342	5,627,684
Excess of Revenues Over (Under) Expenditures	207,611	3,711	22,771	80,816	36,953	7,586	359,448
OTHER FINANCING SOURCES (USES):							
Transfers In	42,704	6,542	1,069	751	-	75,277	126,343
Transfers Out	(25,685)	(8,408)	(16,444)	(1,146)	-	(52,981)	(104,664)
Proceeds from Other Financing Arrangements	-	-	-	-	-	1,125	1,125
Proceeds from Capital Leases	222	-	-	-	-	-	222
TOTAL OTHER FINANCING SOURCES (USES)	17,241	(1,866)	(15,375)	(395)	-	23,421	23,026
Net Change in Fund Balances	224,852	1,845	7,396	80,421	36,953	31,007	382,474
FUND BALANCES, JULY 1	(17,045)	127,638	11,621	274,356	315,123	597,416	1,309,109
FUND BALANCES, JUNE 30	\$ 207,807	\$ 129,483	\$ 19,017	\$ 354,777	\$ 352,076	\$ 628,423	\$ 1,691,583

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

State of Nebraska

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

(Dollars in Thousands)

Net change in fund balances—total governmental funds **\$ 382,474**

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays are reported as expenditures in governmental funds. Sales of capital assets are reported as revenues. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay, net of gains or losses	121,710	
Depreciation expense	<u>(46,867)</u>	74,843

Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Other financing arrangements	<u>(1,125)</u>	(1,125)
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Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (222)

Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:

Bond principal retirement	3,695	
Other financing arrangement payments	450	
Capital lease payments	<u>1,102</u>	5,247

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 8,649

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year. (1,713)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported in as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	52	
Increase in compensated absences	(3,186)	
Increase in claims and judgments	(3,787)	
Increase in pension benefit obligation	<u>(112)</u>	<u>(7,033)</u>

Change in net assets of governmental activities **\$ 461,120**

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

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 150,799	\$ 21,126	\$ 171,925	\$ 66,072
Receivables, net of allowance	25,046	4,865	29,911	1,483
Due from Other Funds	-	364	364	43,757
Inventories	-	2,007	2,007	205
Prepaid Items	-	414	414	888
TOTAL CURRENT ASSETS	175,845	28,776	204,621	112,405
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,712	1,712	-
Long-Term Investments	26,244	47,525	73,769	-
Securities Lending Collateral	10,428	6,785	17,213	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	251	10,147	10,398	55,716
Less Accumulated Depreciation	(244)	(4,045)	(4,289)	(38,177)
Total Capital Assets, net	7	6,417	6,424	17,539
TOTAL NONCURRENT ASSETS	36,679	62,439	99,118	17,539
TOTAL ASSETS	\$ 212,524	\$ 91,215	\$ 303,739	\$ 129,944
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 3,957	\$ 5,695	\$ 9,652	\$ 6,291
Due to Other Funds	-	869	869	1,238
Capital Lease Obligations	-	-	-	1,833
Claims, Judgments and Compensated Absences	15,123	12,962	28,085	22,456
Deferred Revenue	-	4,733	4,733	391
TOTAL CURRENT LIABILITIES	19,080	24,259	43,339	32,209
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	2,858
Claims, Judgments and Compensated Absences	56	39,450	39,506	42,128
Obligations under Securities Lending	10,428	6,785	17,213	-
TOTAL NONCURRENT LIABILITIES	10,484	46,235	56,719	44,986
TOTAL LIABILITIES	29,564	70,494	100,058	77,195
NET ASSETS:				
Invested in Capital Assets, net of related debt	7	6,102	6,109	12,848
Restricted for:				
Lottery Prizes, Noncurrent	-	1,712	1,712	-
Unemployment Compensation Benefits	182,953	-	182,953	-
Unrestricted	-	12,907	12,907	39,901
TOTAL NET ASSETS	182,960	20,721	203,681	52,749
TOTAL LIABILITIES AND NET ASSETS	\$ 212,524	\$ 91,215	\$ 303,739	\$ 129,944

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

State of Nebraska
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Charges for Services	\$ 132,379	\$ 111,889	\$ 244,268	\$ 265,756
Other	-	-	-	1,136
TOTAL OPERATING REVENUES	132,379	111,889	244,268	266,892
OPERATING EXPENSES:				
Personal Services	55	4,242	4,297	29,928
Services and Supplies	37	24,355	24,392	89,120
Lottery Prizes	-	52,608	52,608	-
Unemployment Claims	155,974	-	155,974	-
Insurance Claims	-	14,076	14,076	135,479
Depreciation	106	446	552	4,968
TOTAL OPERATING EXPENSES	156,172	95,727	251,899	259,495
Operating Income (Loss)	(23,793)	16,162	(7,631)	7,397
NONOPERATING REVENUES (EXPENSES):				
Investment Income	13,403	1,780	15,183	2,800
Gain (Loss) on Sale of Capital Assets	(3)	-	(3)	(423)
Other	-	-	-	(37)
TOTAL NONOPERATING REVENUES (EXPENSES)	13,400	1,780	15,180	2,340
Income (Loss) Before Transfers	(10,393)	17,942	7,549	9,737
Transfers Out	-	(20,591)	(20,591)	(1,088)
Change in Net Assets	(10,393)	(2,649)	(13,042)	8,649
NET ASSETS, JULY 1	193,353	23,370	216,723	44,100
NET ASSETS, JUNE 30	\$ 182,960	\$ 20,721	\$ 203,681	\$ 52,749

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 131,424	\$ 105,017	\$ 236,441	\$ 10,589
Cash Received from Interfund Charges	-	7,603	7,603	256,136
Cash Paid to Employees	(48)	(4,181)	(4,229)	(30,338)
Cash Paid to Suppliers	(33)	(23,730)	(23,763)	(86,410)
Cash Paid for Lottery Prizes	-	(52,196)	(52,196)	-
Cash Paid for Insurance Claims	(159,321)	(12,076)	(171,397)	(138,510)
Cash Paid for Interfund Services	(5)	(672)	(677)	(6,764)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(27,983)</u>	<u>19,765</u>	<u>(8,218)</u>	<u>4,703</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(20,808)	(20,808)	(1,088)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	(96)	(311)	(407)	(3,091)
Proceeds from Sale of Capital Assets	1	-	1	1,024
Principal Paid on Capital Leases	-	-	-	(2,639)
Interest Paid on Capital Leases	-	-	-	(37)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(95)</u>	<u>(311)</u>	<u>(406)</u>	<u>(4,743)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(185,825)	(185,825)	-
Proceeds from Sale of Investment Securities	12,314	185,988	198,302	-
Interest and Dividend Income	11,585	3,494	15,079	2,801
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>23,899</u>	<u>3,657</u>	<u>27,556</u>	<u>2,801</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,179)	2,303	(1,876)	1,673
CASH AND CASH EQUIVALENTS, JULY 1	<u>154,978</u>	<u>18,823</u>	<u>173,801</u>	<u>64,399</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 150,799</u>	<u>\$ 21,126</u>	<u>\$ 171,925</u>	<u>\$ 66,072</u>

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

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2004

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (23,793)	\$ 16,162	\$ (7,631)	\$ 7,397
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	106	446	552	4,968
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(955)	(12)	(967)	(303)
(Increase) Decrease in Due from Other Funds	-	-	-	710
(Increase) Decrease in Inventories	-	(726)	(726)	-
(Increase) Decrease in Prepaid Items	-	(71)	(71)	354
(Increase) Decrease in Long-Term Deposits	-	758	758	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	6	459	465	(4,448)
Increase (Decrease) in Due to Other Funds	-	6	6	(1,042)
Increase (Decrease) in Claims Payable	(3,347)	2,000	(1,347)	(3,031)
Increase (Decrease) in Deferred Revenue	-	743	743	98
Total Adjustments	(4,190)	3,603	(587)	(2,694)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (27,983)	\$ 19,765	\$ (8,218)	\$ 4,703

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 918
Change in Fair Value of Investments	-	(1,409)	(1,409)	-
Total Noncash Transactions	\$ -	\$ (1,409)	\$ (1,409)	\$ 918

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS:			
Cash and Cash Equivalents	\$ 6,697	\$ 23,191	\$ 89,678
Investments:			
U.S. Government Securities	1,016,941	-	-
Corporate Bonds	434,317	-	-
Equity Securities	1,136,182	-	-
Foreign Investments	4,217	-	-
Municipal Bonds	19,894	-	-
Pooled Investment Contracts	120,027	-	-
Collateral Mortgage Obligations	86,824	-	-
Asset Backed Securities	67,458	-	-
Mutual Funds	<u>3,767,022</u>	<u>777,469</u>	-
Total Investments	6,652,882	777,469	-
Securities Lending Collateral	538,051	-	-
Receivables:			
Contributions	15,170	-	-
Interest and Dividends	16,526	166	379
Other	<u>120,882</u>	-	<u>659</u>
Total Receivables	152,578	166	1,038
Due from Other Funds	19,285	2	-
Capital Assets:			
Buildings and Equipment	15,356	-	-
Less Accumulated Depreciation	<u>(4,525)</u>	-	-
Total Capital Assets, net	<u>10,831</u>	-	-
Other Assets	-	<u>9,466</u>	-
TOTAL ASSETS	<u>\$ 7,380,324</u>	<u>\$ 810,294</u>	<u>\$ 90,716</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 410,501	\$ 12,458	18,575
Due to Other Governments	-	-	46,211
Deposits	-	589	-
Due to Other Funds	29	6	1,718
Obligations under Securities Lending	538,051	-	-
Capital Lease Obligations	12,490	-	-
Accrued Compensated Absences	235	-	-
Other Liabilities	-	-	<u>24,212</u>
TOTAL LIABILITIES	<u>961,306</u>	<u>13,053</u>	<u>90,716</u>
NET ASSETS:			
Held in Trust for:			
Pension Benefits	6,419,018	-	-
Other Purposes	-	<u>797,241</u>	-
TOTAL NET ASSETS	<u>6,419,018</u>	<u>797,241</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,380,324</u>	<u>\$ 810,294</u>	<u>\$ 90,716</u>

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

State of Nebraska
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 130,306	\$ 322,142
Client Contributions	-	212
State Contributions	66,767	-
Political Subdivision Contributions	87,350	-
Court Fees	2,002	-
Total Contributions	<u>286,425</u>	<u>322,354</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	748,302	68,134
Interest and Dividend Income	106,308	785
Securities Lending Income	6,454	-
Total Investment Income	<u>861,064</u>	<u>68,919</u>
Investment Expenses	10,254	1,724
Securities Lending Expenses	5,121	-
Total Investment Expense	<u>15,375</u>	<u>1,724</u>
Net Investment Income	<u>845,689</u>	<u>67,195</u>
Escheat Revenue	-	7,299
Other Additions	126	10,644
TOTAL ADDITIONS	<u>1,132,240</u>	<u>407,492</u>
DEDUCTIONS:		
Benefits	219,863	15,896
Refunds	10,641	-
Amounts Distributed to Outside Parties	-	1,622
Administrative Expenses	7,433	6,331
Transfers to Other Funds	-	24
TOTAL DEDUCTIONS	<u>237,937</u>	<u>23,873</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	894,303	-
Other Purposes	-	383,619
NET ASSETS-BEGINNING OF YEAR	<u>5,524,715</u>	<u>413,622</u>
NET ASSETS-END OF YEAR	<u>\$ 6,419,018</u>	<u>\$ 797,241</u>

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

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2004

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 208,440	\$ 12,943	\$ 221,383
Receivables, net of allowance			
Loans	36,319	2,697	39,016
Other	92,655	1,733	94,388
Due from Primary Government	-	1,609	1,609
Investments	1,158,279	23,347	1,181,626
Investment in Joint Venture	147,866	-	147,866
Other Assets	52,106	897	53,003
Restricted Assets:			
Cash and Cash Equivalents	397,330	17,412	414,742
Investments Held by Trustee	-	1,354	1,354
Capital assets:			
Land	48,286	615	48,901
Infrastructure	81,707	16,452	98,159
Construction in Progress	92,914	7,979	100,893
Buildings and Equipment	1,258,912	116,219	1,375,131
Less Accumulated Depreciation	(477,009)	(51,360)	(528,369)
Total Capital Assets, net of depreciation	<u>1,004,810</u>	<u>89,905</u>	<u>1,094,715</u>
Total Assets	<u>\$ 3,097,805</u>	<u>\$ 151,897</u>	<u>\$ 3,249,702</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 108,447	\$ 7,129	\$ 115,576
Deposits	12,447	417	12,864
Deferred Revenue	64,389	500	64,889
Noncurrent Liabilities:			
Due within one year	39,249	4,315	43,564
Due in more than one year	432,206	33,261	465,467
Total Liabilities	<u>\$ 656,738</u>	<u>\$ 45,622</u>	<u>\$ 702,360</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 573,741	\$ 54,399	\$ 628,140
Restricted for:			
Education	120,274	-	120,274
Other Purposes	1,302,065	25,368	1,327,433
Construction and Debt Service	218,681	14,767	233,448
Unrestricted	226,306	11,741	238,047
Total Net Assets	<u>\$ 2,441,067</u>	<u>\$ 106,275</u>	<u>\$ 2,547,342</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 760,484	\$ 43,186	\$ 803,670
Supplies and materials	192,896	4,224	197,120
Contractual services	86,982	2,377	89,359
Repairs and maintenance	42,189	1,562	43,751
Utilities	26,790	3,075	29,865
Communications	13,231	936	14,167
Depreciation	52,896	3,286	56,182
Scholarships and fellowships	103,924	1,609	105,533
Other	10,958	7,681	18,639
Total Operating Expenses	<u>1,290,350</u>	<u>67,936</u>	<u>1,358,286</u>
Program Revenues:			
Charges for Services	492,128	21,952	514,080
Operating Grants and Contributions	333,507	10,966	344,473
Capital Grants and Contributions	3,127	975	4,102
Total Program Revenues	<u>828,762</u>	<u>33,893</u>	<u>862,655</u>
Net (Expense) Revenue	<u>(461,588)</u>	<u>(34,043)</u>	<u>(495,631)</u>
General Revenue:			
Interest and investment earnings	53,199	1,102	54,301
Payments from the State of Nebraska	399,497	38,728	438,225
Miscellaneous	201,016	6,242	207,258
Total General Revenues	<u>653,712</u>	<u>46,072</u>	<u>699,784</u>
Change in Net Assets	192,124	12,029	204,153
Net Assets - Beginning - Restated	<u>2,248,943</u>	<u>94,246</u>	<u>2,343,189</u>
Net Assets - Ending	<u>\$ 2,441,067</u>	<u>\$ 106,275</u>	<u>\$ 2,547,342</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

A. Basis of Presentation. The accompanying financial statements of the State of Nebraska (the "State") and its component units have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services. Additional data has been derived from audited financial statements of certain entities and from reports prescribed by the State Accounting Administrator and prepared by various State agencies and departments based on independent or subsidiary accounting systems maintained by them.

B. Reporting Entity. In determining its financial reporting entity, the State has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State, or the significance of their relationship with the State are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

As required by GAAP, these financial statements present the State and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. Complete financial statements of the individual component units that issue separate financial statements, as noted below, can be obtained from their respective administrative offices.

Blended Component Units. The following component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased

to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

Nebraska State Building Corporation. The Nebraska State Building Corporation (NSBC) is a nonprofit corporation formed by the State in 1987 to finance the acquisition of property to be used by the State. Even though it is legally separate, the NSBC is reported as if it were part of the State because it provides services entirely to the State.

Discretely Presented Component Units. The following component units are entities that are legally separate from the State, but are financially accountable to the State, or their relationships with the State are such that their exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State and governed by separate boards.

Nebraska State College System. The Board of Trustees of the Nebraska State Colleges governs Chadron State College, Peru State College and Wayne State College. The Board of Trustees is also the Board of Directors of the Nebraska State Colleges Facilities Corporation, a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State Colleges. The Board of Trustees consists of the Commissioner of Education and six members appointed by the Governor. Chadron State, Peru State and Wayne State Foundations are tax-exempt nonprofit corporations whose purpose is to provide financial support for the Nebraska State College System. Audit reports have been issued under separate cover.

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The University's financial reporting entity also consists of the following units: the University of Nebraska Facilities Corporation, a nonprofit corporation

organized by the Board of Regents in 1930 to finance the construction and repair of buildings and hold them in trust for the University of Nebraska; the University Medical Associates, organized for the purpose of billing medical service fees generated by university clinicians; UNEMed, organized to develop and market biomedical technologies for the university; the University Dental Associates, organized for the purpose of billing dental service fees generated by university dentists; the Nebraska Utility Corporation, formed to purchase, lease, construct and finance activities relating to energy requirements of the University of Nebraska-Lincoln; and the University of Nebraska Foundation, a tax-exempt nonprofit corporation whose purpose is to provide financial support for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State. Audit reports have been issued under separate cover.

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

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Facilities Authority, Nebraska Investment Finance Authority, Research and Development Authority, and Wyuka Cemetery.

C. Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the State as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component

units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted Net Assets. This category results when constraints are externally imposed on net asset use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

It is the policy of the State to spend restricted net assets only when unrestricted net assets are insufficient or unavailable.

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Net Assets reports total governmental activities unrestricted net assets of \$425,811. A significant portion of these net assets relate to the Health and Social Services Fund. While this fund is reported as unrestricted, a significant portion of the fund has statutory provisions requiring the fund be spent on nursing facilities, medical assistance programs and tobacco prevention and control.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Administrative overhead charges of internal service funds are included in direct expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment; and 3) investment earnings of permanent funds that are legally restricted for a specific program. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 60 days, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment compensation taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

General Fund. This is the State's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Highway Fund. This fund accounts for the maintenance and preservation of State highways financed with sales tax on motor vehicles, gas taxes, federal aid and other highway user fees.

Federal Fund. This fund accounts for substantially all federal monies received by the State, except those received by the Highway Fund.

Health and Social Services Fund. This fund accounts for activities of agencies, boards, and commissions providing health care and social services financed primarily by user fees and tobacco settlement proceeds.

Permanent School Fund. This fund receives proceeds from any sale of the school lands held in trust for public education; payments for easements and rights-of-way over these lands; royalties and severance taxes paid on oil, gas and minerals produced from this lands; escheats; unclaimed property and other items provided by law. Income is distributed to public schools.

The State reports the following major enterprise fund:

Unemployment Compensation Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons.

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

Capital Projects Fund. Reflects transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities.

Permanent Funds. Reflects transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens, such as veterans, state airports and others.

Proprietary Fund Types:

Enterprise Funds. Reflect transactions used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing, and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private Purpose Trust Funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals and assets held for clients and inmates.

Agency Funds. These funds account for assets held by the State pending distribution to other governments and individuals.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents. In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2004, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operational investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Investments. Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

G. Receivables. Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.

H. Inventories. Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Food stamps and commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Food stamp inventory is reported at face value and commodities are reported at fair values established by the federal government at the date received.

I. Restricted Assets. Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.

J. Capital Assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical

records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These collections are not capitalized by the State because they are (1) held for public exhibition, education or research in furtherance of public service, rather than financial gain, (2) protected, kept unencumbered, cared for and preserved, and (3) subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

Generally, equipment that has a cost in excess of \$5 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100 are capitalized. Building improvements and renovations in excess of \$100 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings and equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: commit to maintaining and preserving affected assets at or above a condition level established by the State; maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Roads are accounted for using the modified approach.

K. Compensated Employee Absences. All permanent employees earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 220 days (or 180 days for non-union employees). Sick leave is not vested except upon death or upon reaching the age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime.

The government-wide, proprietary, and fiduciary fund financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

M. Interfund Transactions. Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The effect of interfund activity has been eliminated from the government-wide financial statements.

N. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2004, basic financial statements. All securities purchased or held must either be in the custody of the State or deposited with an agent in the State's name.

Deposits. At June 30, 2004, the carrying amounts of the State's deposits were \$272,803 and the bank balances were \$314,135. All bank balances were covered by federal depository insurance or by collateral held by the State's agent in the State's name.

State Statutes require that the aggregate amount of collateral securities deposited by a bank with the State Treasurer shall be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. During the year, the amount of public funds deposited with a bank twice exceeded the amount of collateral required by statute. The State Treasurer had compensating balance agreements with various banks totaling \$206,276 at June 30, 2004.

Investments. State Statute Section 72-1246 authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule. Certain State entities are also allowed by statute to invest in real estate and other investments.

The State's investments are categorized to give an indication of the level of custodial risk assumed by the State at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

The Pension Funds own approximately 72 percent of the investments that are in Category 1.

STATE'S INVESTMENTS AT JUNE 30, 2004

	CATEGORY			TOTAL FAIR VALUE
	1	2	3	
U.S. Government Securities	\$ 1,295,519	\$ 5,440	\$ -	\$ 1,300,959
Corporate Bonds	731,497	-	-	731,497
Equity Securities				
Not on Securities Loan	1,090,368	-	-	1,090,368
On Securities Loan	6,556	-	-	6,556
Collateral Mortgage Obligations	108,715	-	-	108,715
Asset Backed Securities	74,138	-	-	74,138
Municipal Bonds	23,728	-	-	23,728
	<u>\$ 3,330,521</u>	<u>\$ 5,440</u>	<u>\$ -</u>	3,335,961
UNCATEGORIZED:				
Pooled Investment Contracts				117,157
Investment in U.S. Treasury				
Investment Pool				146,580
Investments held by Broker-Dealers				
Under Securities Loans				
U.S. Government Securities				683,863
Corporate Bonds				68,102
Equity Securities				144,985
Securities Lending Short-term Collateral				
Investment Pool				912,365
Mutual Funds				5,061,249
Foreign Investments				4,195
Less: Component Unit Investment in State Investment Pool				(322,016)
Total Investments				<u>\$ 10,152,441</u>

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2004, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 10,152,441
Carrying amount of Deposits	272,803
Total	<u>\$ 10,425,244</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 420,145
Investments	1,523,141
Restricted Cash and Cash Equivalents	19,676
Securities Lending Collateral	374,314

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	119,566
Investments	7,430,351
Securities Lending Collateral	538,051
Total	<u>\$ 10,425,244</u>

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial bank administers the securities lending program and receives cash, United States government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 51 and 55 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets,

reference rates or financial indices. Over 80% of all such instruments are pension trust investments; the remaining are endowment investments. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives Policy. The State invests in collateral mortgage obligations, futures contracts, and U.S. Treasury STRIPS. Collateral mortgage obligations, with a par value of \$156,667, are traded on exchanges and carried at fair value. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The State invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2004, the State held futures contracts with a par value of \$368,453 and a fair value of \$0. Treasury STRIPS, which are backed by the full faith and credit of the United States, are utilized because the State receives a payment at a specific date. Fair value at June 30, 2004 was \$23,310 and par value was \$68,750.

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2004:

Governmental Activities:	
General Fund	\$ 15,020
Federal Fund	16,371
Health and Social Services Fund	11,310
Total Governmental Activities	<u>\$ 42,701</u>
Business-type Activities:	
Unemployment Compensation	\$ 5,276
Total Business-type Activities	<u>\$ 5,276</u>

Of the taxes and other receivables, \$8,409 and \$18,758, respectively, is not expected to be collected within the next 60 days. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 458,170	\$ 14,605	\$ -	\$ 472,775
Infrastructure	6,081,847	73,844	-	6,155,691
Construction in progress	57,201	22,762	24,675	55,288
Total capital assets, not being depreciated	<u>6,597,218</u>	<u>111,211</u>	<u>24,675</u>	<u>6,683,754</u>
Capital assets, being depreciated:				
Buildings and improvements	423,709	8,512	1,539	430,682
Equipment	317,331	33,143	17,799	332,675
Total capital assets, being depreciated	<u>741,040</u>	<u>41,655</u>	<u>19,338</u>	<u>763,357</u>
Less accumulated depreciation for:				
Buildings and improvements	180,053	9,475	843	188,685
Equipment	202,446	42,362	14,565	230,243
Total accumulated depreciation	<u>382,499</u>	<u>51,837</u>	<u>15,408</u>	<u>418,928</u>
Total capital assets, being depreciated, net	<u>358,541</u>	<u>(10,182)</u>	<u>3,930</u>	<u>344,429</u>
Governmental activities capital assets, net	<u>\$ 6,955,759</u>	<u>\$ 101,029</u>	<u>\$ 28,605</u>	<u>\$ 7,028,183</u>
Business-type activities:				
Unemployment Compensation				
Equipment, being depreciated	\$ 162	\$ 96	\$ 7	\$ 251
Less accumulated depreciation	141	106	3	244
Total Unemployment Compensation, net	<u>21</u>	<u>(10)</u>	<u>4</u>	<u>7</u>
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>
Capital assets, being depreciated:				
Buildings and improvements	5,842	181	-	6,023
Equipment	3,984	140	-	4,124
Total capital assets, being depreciated	<u>9,826</u>	<u>321</u>	<u>-</u>	<u>10,147</u>
Less accumulated depreciation for:				
Buildings and improvements	1,287	161	-	1,448
Equipment	2,312	285	-	2,597
Total accumulated depreciation	<u>3,599</u>	<u>446</u>	<u>-</u>	<u>4,045</u>
Total capital assets, being depreciated, net	<u>6,227</u>	<u>(125)</u>	<u>-</u>	<u>6,102</u>
Total Nonmajor Enterprise, net	<u>6,542</u>	<u>(125)</u>	<u>-</u>	<u>6,417</u>
Business-type activities capital assets, net	<u>\$ 6,563</u>	<u>\$ (135)</u>	<u>\$ 4</u>	<u>\$ 6,424</u>

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

Governmental activities:	
General Government	\$ 14,368
Conservation of Natural Resources	2,045
Culture – Recreation	1,833
Economic Development and Assistance	393
Education	1,511
Health and Social Services	1,489
Public Safety	7,238
Regulation of Business and Professions	285
Transportation	22,675
Total depreciation expense - Governmental activities	<u>\$ 51,837</u>

Construction Commitments. At June 30, 2004, the State had contractual commitments of approximately \$464,640 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 221,731
State funds	164,379
Local funds	78,530
	<u>\$ 464,640</u>

Most of these commitments will not be reflected as capital asset increases when they are paid because the State is using the modified approach to account for infrastructure. Under this method, capital asset additions are only reflected when improvements expand the capacity or efficiency of an asset.

5. Interfund Balances

Due To/From Other Funds at June 30, 2004, consists of the following:

DUE FROM	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ 120	\$ 1	\$ 361	\$ 247	\$ 70	\$ 38,293	\$ 17,599	\$ 56,691
Highway Fund	-	-	-	-	-	102	1	-	103
Federal Fund	109,782	5	-	8,850	1,897	136	3,473	4	124,147
Health and Social Services	-	-	1,400	-	30	33	203	-	1,666
Permanent School Fund	14	-	-	-	2	-	5	-	21
Nonmajor Governmental Funds	356	16	639	30	63	23	1,232	1,680	4,039
Nonmajor Enterprise Funds	-	15	-	8	815	-	31	-	869
Internal Service Funds	63	475	3	2	207	-	484	4	1,238
Fiduciary Funds	-	-	1,715	-	3	-	35	-	1,753
TOTALS	\$ 110,215	\$ 631	\$ 3,758	\$ 9,251	\$ 3,264	\$ 364	\$ 43,757	\$ 19,287	\$ 190,527

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for \$35,700 due from the General Fund to internal service funds for workers' compensation liability.

Interfund transfers at June 30, 2004, consist of the following:

TRANSFERRED FROM:	TRANSFERRED TO:					TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 25,685	\$ 25,685
Highway Fund	2,000	-	-	-	6,408	8,408
Federal Fund	-	-	-	-	16,444	16,444
Health & Social Services Fund	-	-	1,066	-	80	1,146
Nonmajor Governmental Funds	39,616	6,542	3	50	6,770	52,981
Nonmajor Enterprise Funds	-	-	-	701	19,890	20,591
Internal Service Funds	1,088	-	-	-	-	1,088
TOTALS	\$ 42,704	\$ 6,542	\$ 1,069	\$ 751	\$ 75,277	\$ 126,343

Transfers are used to (1) move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) move profits from the State Lottery Fund as required by law.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2004, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Compensation	Nonmajor Enterprise Funds	TOTALS
Payroll and Withholdings	\$ 10,808	\$ 5,531	\$ 3,183	\$ 663	\$ -	\$ 1,514	\$ 1,478	\$ 2	\$ 210	\$ 23,389
Payables and Accruals	61,818	44,838	63,984	19,836	159	18,471	3,656	3,772	5,485	222,019
Due to Fiduciary Funds *	-	-	-	-	-	-	19,287	-	-	19,287
Miscellaneous	1,873	-	-	316	5	308	994	183	-	3,679
TOTALS	\$ 74,499	\$ 50,369	\$ 67,167	\$ 20,815	\$ 164	\$ 20,293	\$ 25,415	\$ 3,957	\$ 5,695	\$ 268,374

* This amount represents amounts due to fiduciary funds, which were classified as external payables on the government-wide Statement of Net Assets.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2004, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 382,461	\$ 1,425,374	\$ 1,414,230	\$ 393,605	\$ 196,377
Bonds Payable	30,960	-	3,695	27,265	3,835
Capital Lease Obligations	29,836	1,140	3,741	27,235	5,235
Obligations Under Other Financing Arrangements	10,555	1,125	450	11,230	1,690
Compensated Absences	106,650	15,992	13,668	108,974	15,725
Pension Benefit Obligation	-	112	-	112	-
Totals	\$ 560,462	\$ 1,443,743	\$ 1,435,784	\$ 568,421	\$ 222,862
Business-type Activities:					
Unemployment Compensation:					
Claims Payable	\$ 19,175	\$ 141,499	\$ 145,560	\$ 15,114	\$ 15,114
Compensated Absences	59	15	9	65	9
Totals for Unemployment Compensation	19,234	141,514	145,569	15,179	15,123
Nonmajor Enterprise Funds:					
Claims Payable	50,000	15,881	13,881	52,000	12,903
Compensated Absences	417	75	80	412	58
Totals for Nonmajor Enterprise Funds	50,417	15,956	13,961	52,412	12,961
Totals for Business-type Activities	\$ 69,651	\$ 157,470	\$ 159,530	\$ 67,591	\$ 28,085

Claims payable, compensated absences and capital lease obligations typically have been liquidated in the general, special revenue and internal service funds. Bonds payable and obligations under other financing arrangements have been liquidated in the special revenue funds.

8. Bonds Payable

Article XIII of the State's Constitution prohibits the State from incurring debt in excess of one hundred thousand dollars. However, there is a provision in the State's Constitution that permits the issuance of revenue

bonds for: (1) construction of highways; and (2) construction of water conservation and management structures. At June 30, 2004, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May 2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The

NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2004 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2004 are collateralized by the

revenues of the NSBC, which consist primarily of building rental paid by the State.

The component units issue bonds for various purposes including student housing, parking facilities and special event centers. Net revenues from student housing and dining facilities, special student fees and parking facilities fees are pledged to secure the appropriate issues.

All outstanding bond issues of the University of Nebraska Facilities Corporation and the Nebraska State College Facilities Corporation are general obligations of these corporations. They are separate legal entities that are not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2004 are collateralized by a special allocation of a portion of the State cigarette tax.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2004
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000,2002	2001-2010	2.70%-6.00%	\$ 24,125
Nebraska State Building Corporation Issue	2002	2002-2009	1.50%-3.85%	3,140
Primary Government Total				<u>\$ 27,265</u>
COMPONENT UNITS				
University of Nebraska	1993-2004	1993-2033	1.20%-5.80%	\$ 382,955
Nebraska State Colleges	1999-2003	2001-2028	1.60%-5.70%	35,325
Component Units Total				<u>\$ 418,280</u>

PRIMARY GOVERNMENT DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2005	3,835	1,366	5,201
2006	3,995	1,209	5,204
2007	4,195	1,014	5,209
2008	4,405	808	5,213
2009	5,985	584	6,569
2010-2014	4,850	291	5,141
Total	<u>\$ 27,265</u>	<u>\$ 5,272</u>	<u>\$ 32,537</u>

COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2005	17,160	19,374	36,534
2006	27,880	18,599	46,479
2007	25,100	17,384	42,484
2008	25,440	16,254	41,694
2009	29,340	15,074	44,414
2010-2014	96,420	58,920	155,340
2015-2019	75,660	38,514	114,174
2020-2024	63,315	22,228	85,543
Thereafter	57,965	19,884	77,849
Total	<u>\$ 418,280</u>	<u>\$ 226,231</u>	<u>\$ 644,511</u>

Changes in bonds payable for component units for fiscal year 2004 are summarized below:

Balance at July 1, 2003	\$ 284,050
New Bonds Issued:	
University of Nebraska	161,210
Nebraska State Colleges	6,910
Bonds Retired	(33,890)
Balance at June 30, 2004	<u>\$ 418,280</u>

Bond Defeasances – Component Units

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

In 2004, the University of Nebraska Board of Regents authorized its own Series 2004A Revenue and Refunding Bonds. On June 3, 2004, the Board of Regents paid to the University of Nebraska Facilities Corporation \$13,358 and \$1,918, which was deposited into an irrevocable trust with an escrow agent to defease outstanding 1997 Series Bonds maturing on or after

November 1, 2005 and on November 1, 2004, respectively. As a result, the 1997 bonds are considered to be defeased. This transaction reduced total debt service payments by approximately \$461 and resulted in an economic gain of approximately \$109. At June 30, 2004, \$14,845 of 1997 bonds is outstanding.

On July 15, 1993, the University of Nebraska Facilities Corporation issued \$45,570 of Refunding Bonds. On September 30, 1997, the University of Nebraska Facilities Corporation deposited \$34,764 into an irrevocable trust with an escrow agent to defease outstanding 1993 Series Bonds. Outstanding bonds on July 1, 2005 will be redeemed at a price equal to the principal amount plus accrued interest. As a result, the 1993 bonds are considered to be defeased and the liability for these bonds has been removed from bonds payable. At June 30, 2004, \$28,820 of 1993 bonds is outstanding.

9. Lease Commitments

Capital and Operating Leases. The State leases land, office facilities, equipment, and other assets under both capital and operating leases. Although the lease terms may vary, all leases are subject to annual appropriation by the Legislature.

The minimum annual lease payments and the present value of future minimum payments for capital leases as of June 30, 2004 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2005	6,211
2006	5,722
2007	5,460
2008	4,137
2009	4,074
2010-2014	3,895
2015-2019	1,881
Total Minimum Payments	31,381
Less: Interest and executory costs	4,146
Present value of net minimum payments	<u>\$ 27,235</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2004:

	GOVERNMENTAL ACTIVITIES
Buildings	\$ 7,070
Equipment	36,419
Less: accumulated depreciation	(15,235)
Carrying value	<u>\$ 28,254</u>

The minimum annual lease payments for operating leases as of June 30, 2004 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2005	\$ 7,519
2006	4,695
2007	4,061
2008	3,835
2009	3,766
2010-2014	8,694
2015-2019	582
2020-2024	116
Total	<u>\$ 33,268</u>

Primary Government operating lease payments for the year ended June 30, 2004 totaled \$12,519.

Lessor Transactions. The State also is a lessor of property, primarily farm land leased by the Board of Educational Lands and Funds to farmers and ranchers. At June 30, 2004, the State owned approximately 1.5 million acres of land that was under lease. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$25,270 were received under these and other lease agreements for the year ended June 30, 2004.

10. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority (NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 1.30 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2005	\$ 1,690	\$ 486	\$ 2,176
2006	580	445	1,025
2007	605	422	1,027
2008	630	396	1,026
2009	655	369	1,024
2010-2014	3,800	1,346	5,146
2015-2019	3,270	284	3,554
Total	<u>\$ 11,230</u>	<u>\$ 3,748</u>	<u>\$ 14,978</u>

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

The Public Employees Retirement Board (the Board), which consists of seven members, was created in 1971 to administer the Nebraska retirement plans then in existence. Those plans were the School, State Employees', Judges' and State Patrol plans. In October of 1973, the Board assumed the administration of the Nebraska Counties Retirement System. The plans have been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Contribution and benefit provisions are established by State law and may only be amended by the State Legislature.

The Board prepares separate reports for the defined contribution plans and for the defined benefit plans. Copies of these reports that include financial statements and required supplementary information for the plans may be obtained by writing to Public Employees Retirement Systems, P.O. Box 94816, Lincoln, NE 68509-4816, or by calling 402-471-2053.

Basis of Accounting. The financial statements of the plans are prepared using the accrual basis of accounting, and are included as pension trust funds in the accompanying financial statements. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Plan Description and Funding Policy. By State law, there is to be an equitable allocation of expenses among the retirement systems administered by the Board, and all expenses shall be provided from the investment income earned by the various retirement funds. Following is a summary of each of these plans:

State Employees' Retirement. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution benefit or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2003.

Participation in the plan is required for all permanent full-time employees upon completion of 12 months

of continuous service. Each member contributes 4.33 percent of their compensation until \$864 (not in thousands) has been paid and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2003, there were 14,919 active members and 1,943 inactive members. Members contributed \$23,101 and the State contributed \$36,113 during the year ended December 31, 2003, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. This multiple-employer plan covers employees of 91 of the 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees by State law. Prior to January 1, 2003, the plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution benefit or begin participation in the cash balance benefit. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2003.

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

As of December 31, 2003, there were 6,254 active members and 1,128 inactive members. Members contributed \$7,471 and counties contributed \$11,032 during the year ended December 31, 2003, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 603 participating school districts.

All regular public school employees in Nebraska, other than those who have their own retirement plan, are members of the system. The benefits are based on both service and contributions.

The State's contribution is based on an annual actuarial valuation. The employees' contribution is 7.25 percent of their total pay and the school district's contribution is 101 percent of the employees' contribution.

Judges' Retirement. The Judges' Retirement System is a single-employer defined benefit pension system. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Court, Workers' Compensation Court, County Court, and Juvenile Court. Benefits are based on both service and final average salary. Benefits vest when the judge takes office.

Members' contributions, a portion of court fees collected, and the State's contribution, which is

based on an annual actuarial valuation, fund the plan. The judges contribute six percent of their salary.

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit pension system for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the average salary. Participation is mandated upon employment.

Members are required to contribute eleven percent of their monthly salary, which is matched by the State Patrol. The State's contribution is based on an annual actuarial valuation.

The following tables provide the schedules of funding progress and the primary actuarial assumptions used in the most recent actuarial reports for the single-employer defined benefit plans:

**UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(a-b) Excess of Assets over AAL (Unfunded AAL)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Excess/UAAL as a Percentage of Covered Payroll
State Cash Balance						
12/31/2003	\$ 254,176	\$ 241,192	\$ 12,984	105.4 %	\$ 171,324	7.6 %
Judges'						
6/30/2004	\$ 92,821	\$ 95,671	\$ (2,850)	97.0 %	\$ 16,655	(17.1)%
6/30/2003	91,864	85,388	6,476	107.6	16,402	39.5
6/30/2002	92,596	81,192	11,404	114.0	16,062	71.0
State Patrol						
6/30/2004	\$ 216,423	\$ 222,162	\$ (5,739)	97.4 %	\$ 22,641	(25.3)%
6/30/2003	214,657	210,931	3,726	101.8	21,929	17.0
6/30/2002	214,528	197,615	16,913	108.6	18,847	89.7

	STATE CASH BALANCE	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2003	6/30/2004	6/30/2004
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Amount Closed	Level Amount Closed	Level Amount Closed
Amortization Period	25 Years	25 Years	25 Years
Mortality	1994 Group Annuity Table	1994 Group Annuity Table	1994 Group Annuity Table
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return **	7.6%	8.0%	8.0%
Projected Salary Increases **	Graded 9.1% to 4.5%	5.0%	Graded 12.0% to 4.5%

** Includes assumed inflation of 3.5% per year.

UNAUDITED THREE-YEAR TREND INFORMATION			
YEAR ENDED JUNE 30	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance			
2004	\$ 11,225	100%	\$ -
County Cash Balance			
2004	\$ 4,093	100%	\$ -
School			
2004	\$ 15,416	100%	\$ -
2003	15,521	100	-
2002	14,971	100	-
Judges'			
2004	\$ 2,074	100%	\$ -
2003	1,292	50	646
2002	559	100	-
State Patrol			
2004	\$ 3,019	96%	\$ 112
2003	2,653	100	-
2002	2,428	100	-

12. Contingencies and Commitments

Grants and Contracts. The State participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State.

All State agencies including institutions of higher education are required to comply with various federal regulations issued by the U.S. Office of Management and Budget if such agency or institution is a recipient of federal grants, contracts, or other sponsored agreements. Certain agencies or institutions may not be in total compliance with these regulations. Failure to comply may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. Management believes that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the State.

Litigation. The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the State for these proceedings. It is the State's opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State's financial position.

The State also has been named as a party in legal proceedings that occur outside of the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State for all of these proceedings. However, the legal proceedings that have been determined to be reasonably possible to result in an unfavorable outcome are not expected to exceed \$20.2 million. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

The Excess Liability Fund (Fund) of the State was established to account for activity resulting from the Nebraska Hospital-Medical Liability Act (the Act). Revenues of this fund are earned primarily from insurance premiums from certain health care providers covered under the Residual Authority administered by the Fund plus a surcharge levied on all participating health care providers in Nebraska. Expenses from this fund are used to pay judgments against participating health care providers. Under the Act, the State is limited to \$1,750 per occurrence. The State is a party to more than 80 lawsuits involving a doctor and other health care providers in Nebraska by former patients seeking recovery of damages for professional negligence and medical malpractice resulting in the claimant-patients being exposed to or contracting Hepatitis C. The State accrues for claims against the Fund when payments associated with the claims become probable and can be reasonably estimated for financial statement purposes. The State has recorded a reserve as Claims Payable for this litigation in the Fund and Government-wide Financial Statements. Management of the State believes the accrual for claims payable is appropriate based on information currently available. Management of the State also believes the State has no separate obligation to satisfy any financial obligation of the Fund. The actual costs of resolving these claims against the State may differ substantially from the amounts accrued.

13. Risk Management

Through the Department of Administrative Services, Divisions of Risk Management and State Personnel, the State maintains insurance and self-insurance programs. Workers' compensation, health care, employee liability and general liability are generally self-insured. However, the State does carry surety bonds for constitutional officers and limited general liability on two buildings. Motor vehicle liability is insured with a \$5,000 limit and a \$300 retention per occurrence (the self-insured retention for vehicular pursuit is \$1,000) and employee dishonesty is insured with a \$1,000 limit with a \$25 retention per incident. The State insures against property damage, maintaining a policy with a \$100,000 limit and a \$200 retention per occurrence. The State also carries some insurance for personal property damage. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. The Division of State Personnel provides life

insurance for eligible State employees. These activities are reported in the Risk Management Internal Service Fund.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liability for workers' compensation is recorded at a discounted rate of three percent (\$7,880), which resulted in a liability of \$49,974.

Changes in the balances of claims liabilities during the years ended June 30, 2004, and 2003, were as follows:

	Fiscal Year	
	2004	2003
Beginning Balance	\$ 63,360	\$ 52,357
Current Year Claims and Changes in Estimates	135,479	129,571
Claim Payments	(138,510)	(118,568)
Ending Balance	<u>\$ 60,329</u>	<u>\$ 63,360</u>

14. Joint Venture

On October 1, 1997, the Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement forming the Nebraska Health System, a Nebraska nonprofit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint

venture under the equity method. The University has recorded fifty percent equity in the change in net assets of NMC for the year ended June 30, 2004 totaling approximately \$19,349. In addition, to the extent that sufficient funds are available as determined by the NMC Board of Directors, the University will receive an annual capital distribution. A distribution of \$3,000 was declared and paid out for fiscal year 2004.

In connection with the Joint Operating Agreement, the Board of Regents also entered into an Academic Affiliation Agreement for Education and Research with NMC. In connection with this agreement, NMC has agreed to financially support certain educational, research, operational and clinical activities of the University that further the mission and objectives of NMC. During the year ended June 30, 2004, the University received approximately \$21,035 of support in connection with the agreement.

Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42nd Street and Dewey Avenue, Omaha NE 68105.

15. Accounting Changes

GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, was implemented during fiscal year 2004. This guidance requires States to recognize an asset for future tobacco settlement resources from January 1 through the end of the fiscal year. The Beginning Net Assets of the Governmental Activities were increased by \$18,959 as a result of implementing this pronouncement.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, An Amendment of GASB 14*, was implemented during fiscal year 2004. This Statement provides guidance to determine whether certain organizations for which the State is not financially accountable should be reported as a component unit based on the nature and significance of the relationship. As a result of implementing this guidance, the foundations of the University and State Colleges were included with these Component Units, and Beginning Net Assets of the Component Units were increased by \$867,929.

REQUIRED SUPPLEMENTARY INFORMATION



State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

(Dollars in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 2,686,830	\$ 2,564,855	\$ 2,673,582	\$ 108,727
Federal Grants and Contracts	29,216	29,216	29,216	-
Sales and Charges	21,059	21,059	21,059	-
Other	11,687	11,687	11,687	-
TOTAL REVENUES	2,748,792	2,626,817	2,735,544	108,727
EXPENDITURES:				
Current:				
General Government	97,656	98,076	91,897	6,179
Conservation of Natural Resources	36,536	36,741	25,716	11,025
Culture – Recreation	5,271	5,263	5,003	260
Economic Development and Assistance	6,013	5,985	5,519	466
Education	1,338,744	1,336,553	1,313,389	23,164
Health and Social Services	915,404	864,308	836,047	28,261
Public Safety	205,121	191,171	171,032	20,139
Regulation of Business and Professions	3,698	3,527	3,299	228
Transportation	1,514	1,029	945	84
Intergovernmental	99,912	103,372	101,274	2,098
TOTAL EXPENDITURES	2,709,869	2,646,025	2,554,121	91,904
Excess of Revenues Over (Under) Expenditures	38,923	(19,208)	181,423	200,631
OTHER FINANCING SOURCES (USES):				
Transfers In	194,544	194,544	194,544	-
Transfers Out	(176,877)	(176,877)	(176,877)	-
Other	89	89	89	-
TOTAL OTHER FINANCING SOURCES (USES)	17,756	17,756	17,756	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	56,679	(1,452)	199,179	200,631
FUND BALANCES, JULY 1	61,847	61,847	61,847	-
FUND BALANCES, JUNE 30	\$ 118,526	\$ 60,395	\$ 261,026	\$ 200,631

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2004, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2004	
General	\$ 173,998
Cash Reserve	87,028
Budgetary fund balances	261,026
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record amount due component units	1,609
Record taxes receivable	254,540
Record tax refund liability	(251,528)
Record State contributions due pension funds	(17,048)
Record medicaid claims payable	(81,665)
Record other net accrued receivables and liabilities	40,873
GAAP fund balance, June 30, 2004	\$ 207,807

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2004

(Dollars in Thousands)

	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 86,895	\$ 86,895	\$ 86,895	\$ -
Federal Grants and Contracts	287,774	287,774	287,774	-
Sales and Charges	318,137	318,137	318,137	-
Other	200,506	200,506	200,506	-
TOTAL REVENUES	<u>893,312</u>	<u>893,312</u>	<u>893,312</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	57,315	64,281	45,207	19,074
Conservation of Natural Resources	63,394	64,376	39,830	24,546
Culture – Recreation	25,558	25,364	20,089	5,275
Economic Development and Assistance	28,772	28,752	13,972	14,780
Education	307,654	308,507	242,574	65,933
Health and Social Services	166,093	168,789	108,857	59,932
Public Safety	32,369	37,052	25,670	11,382
Regulation of Business and Professions	152,604	152,717	121,374	31,343
Transportation	632,970	665,981	617,805	48,176
Intergovernmental	6,825	7,144	6,469	675
Capital Projects	41,394	41,413	12,765	28,648
TOTAL EXPENDITURES	<u>1,514,948</u>	<u>1,564,376</u>	<u>1,254,612</u>	<u>309,764</u>
Excess of Revenues Over (Under) Expenditures	<u>(621,636)</u>	<u>(671,064)</u>	<u>(361,300)</u>	<u>309,764</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	837,442	837,442	837,442	-
Transfers Out	(448,939)	(448,939)	(448,939)	-
Other	8,464	8,464	8,464	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>396,967</u>	<u>396,967</u>	<u>396,967</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(224,669)</u>	<u>(274,097)</u>	<u>35,667</u>	<u>309,764</u>
FUND BALANCES, JULY 1	<u>557,055</u>	<u>557,055</u>	<u>557,055</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 332,386</u>	<u>\$ 282,958</u>	<u>\$ 592,722</u>	<u>\$ 309,764</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2004, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2004	
Cash	\$ 592,722
Construction	1,593
Federal	56,516
Revolving	159,378
Budgetary fund balances	810,209
DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS:	45,144
GAAP fund balance, June 30, 2004	<u>\$ 855,353</u>
Actual Fund Balances of Major Funds, June 30, 2004	
Highway	\$ 129,483
Federal	19,017
Health and Social Services	354,777
Permanent School	352,076
GAAP fund balance, June 30, 2004	<u>\$ 855,353</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	151	151	151	-
TOTAL REVENUES	<u>151</u>	<u>151</u>	<u>151</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	29	29	-	29
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	9,038	9,038	8,120	918
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	25,951	25,856	15,081	10,775
TOTAL EXPENDITURES	<u>35,018</u>	<u>34,923</u>	<u>23,201</u>	<u>11,722</u>
Excess of Revenues Over (Under) Expenditures	<u>(34,867)</u>	<u>(34,772)</u>	<u>(23,050)</u>	<u>11,722</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	21,606	21,606	21,606	-
Transfers Out	-	-	-	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>21,606</u>	<u>21,606</u>	<u>21,606</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(13,261)</u>	<u>(13,166)</u>	<u>(1,444)</u>	<u>11,722</u>
FUND BALANCES, JULY 1	<u>3,037</u>	<u>3,037</u>	<u>3,037</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (10,224)</u>	<u>\$ (10,129)</u>	<u>\$ 1,593</u>	<u>\$ 11,722</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,002,320	2,002,320	2,002,320	-
Sales and Charges	14,157	14,157	14,157	-
Other	7,334	7,334	7,334	-
TOTAL REVENUES	<u>2,023,811</u>	<u>2,023,811</u>	<u>2,023,811</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	5,887	5,509	3,138	2,371
Conservation of Natural Resources	47,442	59,487	41,674	17,813
Culture – Recreation	2,758	3,757	1,589	2,168
Economic Development and Assistance	69,704	70,936	61,181	9,755
Education	496,994	551,461	504,566	46,895
Health and Social Services	1,220,299	1,440,146	1,324,087	116,059
Public Safety	99,067	110,347	64,719	45,628
Regulation of Business and Professions	1,532	2,125	2,020	105
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	15,867	15,867	2,927	12,940
TOTAL EXPENDITURES	<u>1,959,550</u>	<u>2,259,635</u>	<u>2,005,901</u>	<u>253,734</u>
Excess of Revenues Over (Under) Expenditures	<u>64,261</u>	<u>(235,824)</u>	<u>17,910</u>	<u>253,734</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	3,140	3,140	3,140	-
Transfers Out	(2,533)	(2,533)	(2,533)	-
Other	(1,328)	(1,328)	(1,328)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(721)</u>	<u>(721)</u>	<u>(721)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	63,540	(236,545)	17,189 ^f	253,734
FUND BALANCES, JULY 1	<u>39,327</u>	<u>39,327</u>	<u>39,327</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 102,867</u>	<u>\$ (197,218)</u>	<u>\$ 56,516</u>	<u>\$ 253,734</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS
For the Year Ended June 30, 2004

(Dollars in Thousands)

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	1,486	1,486	1,486	-
Sales and Charges	379,759	379,759	379,759	-
Other	126,237	126,237	126,237	-
TOTAL REVENUES	507,482	507,482	507,482	-
EXPENDITURES:				
Current:				
General Government	182,056	182,261	140,352	41,909
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	964	966	367	599
Education	336,380	363,877	330,678	33,199
Health and Social Services	-	-	-	-
Public Safety	16,061	15,972	10,722	5,250
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Intergovernmental	-	-	-	-
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	535,461	563,076	482,119	80,957
Excess of Revenues Over (Under) Expenditures	(27,979)	(55,594)	25,363	80,957
OTHER FINANCING SOURCES (USES):				
Transfers In	37,756	37,756	37,756	-
Transfers Out	(33,750)	(33,750)	(33,750)	-
Other	795	795	795	-
TOTAL OTHER FINANCING SOURCES (USES)	4,801	4,801	4,801	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(23,178)	(50,793)	30,164	80,957
FUND BALANCES, JULY 1	129,214	129,214	129,214	-
FUND BALANCES, JUNE 30	\$ 106,036	\$ 78,421	\$ 159,378	\$ 80,957

See independent auditors' report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2004

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, all State agencies, including the university and colleges, must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Governor reviews the agency requests, establishes priorities, and presents the Legislature with one or more pieces of legislation covering the biennium. The Legislature holds hearings on the Governor's proposed budget, adopts changes and presents final legislation to the Governor. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The approved appropriations set spending limits by fund type for programs within each agency. These limits may include up to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the State Accounting Division of the Department of Administrative Services.

Appropriations are made for each fiscal year of the biennium; balances at the end of the first fiscal year are carried over into the second fiscal year, unless directed otherwise by the Legislature. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the State differ from those presented in the basic financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources. Of these seven fund types, only the first five are subject to the spending limits set by the appropriations bills. The General Fund is the only major fund that corresponds to a budgetary fund type.

General Fund. To account for activities funded by general tax dollars, primarily sales and income taxes.

Cash Reserve Fund. To account for financial resources used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations. The Cash Reserve Fund is part of the budgetary basis fund balance.

Cash Funds. To account for the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis, and to account for the revenues and expenditures related to highway construction.

Construction Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities.

Federal Funds. To account for the financial resources related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts, except for federal highway monies accounted for in the Cash Funds.

Revolving Funds. To account for the financing of goods or services provided by one State agency to another State agency on a cost-reimbursement basis.

Trust Funds. To account for assets held in a trustee capacity.

Distributive Funds. To account for assets held as an agent for individuals, private organizations, and other governments and/or other funds.

The accompanying basic financial statements were prepared by converting budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2004, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2004, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

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

For the Year Ended June 30, 2004

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

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

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

Measurement Scale

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

Established Condition Level

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

Assessed Condition

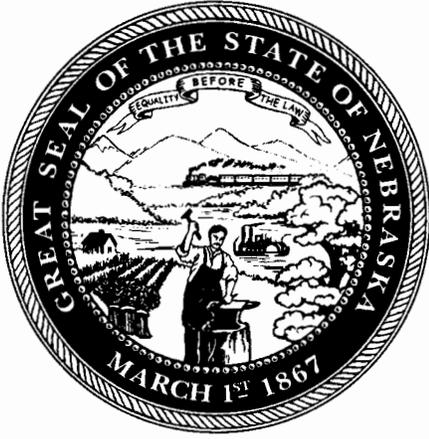
The State assesses conditions on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Very Good”, “Good”, “Fair”, and “Poor”. This condition index is used to classify roads in very good (90-100), good (70-89), fair (50-69), and poor (0-49).

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

Estimated and Actual Costs to Maintain

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, the actual cost of system preservation is greater than estimated as a result of maintaining the system at a NSI level higher than the base level established for GASB-34 purposes (72 base versus 83 actual).

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



SINGLE AUDIT SECTION

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Agriculture, U.S. Department of:		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 308,509
State Medication Grants	10.435	149,161
RHS Rural Community Development	10.446	50,907
Food Donation	10.550	8,602,392
Food Stamp Cluster		
State Administrative Matching Grants for Food Stamp Program	10.551	105,822,784
Nutrition Cluster:	10.561	14,666,104
School Breakfast Program		
National School Lunch Program	10.553	6,922,198
Special Milk Program for Children	10.555	35,473,146
Summer Food Service Program for Children	10.556	77,508
Special Supplemental Nutrition Program for Women, Infants, and Children	10.559	734,024
Child and Adult Care Food Program	10.557	22,000,098
State Administrative Expenses for Child Nutrition	10.558	22,438,887
State Administrative Expenses for Child Nutrition	10.560	1,000,592
Commodity Supplemental Food Program	10.560	145,479
Emergency Food Assistance Cluster	10.565	2,831,554
Emergency Food Assistance Program (Administrative Costs)		
Emergency Food Assistance Program (Food Commodities)	10.568	186,247
Nutrition Services Incentive	10.569	1,360,560
Senior Farmers Market Nutrition Program	10.570	40,573
Nebraska Plant Pest Homeland Security Project	10.576	167,876
Homeland Security Cooperative Agreement	02-8456-0601-CA	42,000
National Organic Certification Cost-Share Program	02-9731-0301 CA	356,203
Rural Development	12-25-A-4160	19,915
National Rural Development Partnership	32-055-0470491233	50,000
Food Safety Task Force on Meat & Poultry Processing	43-3157-8-RDP03	17,148
Long Pine Rural Clean Water Program	N/A	4
State Grants to Promote Agriculture and the Emergency Food Assistance Program	N/A	11,444
Nebraska Rural Rehabilitation Program	N/A	4
Total U.S. Department of Agriculture		\$ 223,660,278
Commerce, U.S. Department of:		
Public Telecommunications Facilities—Planning and Construction	11.550	\$ 460,252
Manufacturing Extension Partnership	11.611	566,728
Domestic Travel Program	11.950	194,815
Total U.S. Department of Commerce		\$ 1,221,795
Corporation for National and Community Service:		
State Commissions	94.003	\$ 123,295
Learn and Serve America—School and Community-Based Program	94.004	70,776
AmeriCorps	94.006	828,670
Planning and Program Development Grants	94.007	41,826
Training and Technical Assistance	94.009	84,778
Total Corporation for National and Community Service		\$ 1,149,345
Defense, U.S. Department of:		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	\$ 9,809,901
Defense Environmental Restoration Program	NE-03-1	124,894
Total U.S. Department of Defense		\$ 9,934,795
Education, U.S. Department of:		
Adult Education—State Grant Program	84.002	\$ 2,382,759
Title I Grants to Local Educational Agencies	84.010	44,630,268
Migrant Education—State Grant Program	84.011	4,410,462
Title I Program for Neglected and Delinquent Children	84.013	281,297
Special Education Cluster:		
Special Education—Grants to States	84.027	56,202,621
Special Education—Preschool Grants	84.173	2,946,545
Vocational Education—Basic Grants to States	84.048	7,771,287
Leveraging Educational Assistance Partnership	84.069	1,038,858
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	2,258,958
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	13,577,228
Rehabilitation Services—Client Assistance Program	84.161	103,368
Independent Living—State Grants	84.169	40,050
Independent Living—State Grants	84.169	221,111
Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	84.177	224,351

^ Amounts taken from financial status reports.
 * Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Education, U.S. Department of, Continued:		
Special Education—Grants for Infants and Families with Disabilities: Safe and Drug-Free Schools and Communities—National Program	84.181	\$ 2,329,746
Byrd Honors Scholarships	84.184	77,225
Safe and Drug-Free Schools and Communities—State Grant	84.185	247,500
Safe and Drug-Free Schools and Communities—State Grant	84.186	1,860,886
Supported Employment Services for Individuals with Severe Disabilities: Education for Homeless Children and Youth	84.187	15,903
Star Schools	84.196	22,950
Even Start—State Educational Agency:	84.205	163,176
Fund for the Improvement of Educator	84.215	15
Capital Expenses	84.216	1,035,714
Assistive Technology	84.215	232,795
Rehabilitation Services: Demonstration and Training Programs	84.216	3,893
Tech-Prep Education	84.224	378,052
National Institute for Literacy	84.235	299,815
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.243	773,768
Eisenhower Professional Development State Grant	84.257	767
Eisenhower Professional Development State Grant	84.265	68,942
Twenty-First Century Community Learning Center	84.281	29,838
Innovative Education Program Strategic:	84.281	378,603
Education Technology State Grant:	84.281	191,930
Special Education—State Program Improvement Grants for Children with Disabilities	84.287	1,080,626
Special Education—Technical Assistance and Dissemination to Improve Services: Results for Children with Disabilities	84.298	2,095,541
Advanced Placement Program	84.318	2,104,362
Special Education—Technical Assistance and Dissemination to Improve Services: Results for Children with Disabilities	84.323	574,828
Class Size Reduction	84.326	122,232
Comprehensive School Reform Demonstration	84.330	2,550
Teacher Quality Enhancement Grant	84.332	21,407
Class Size Reduction	84.332	987,327
Preparing Tomorrow's Teachers to Use Technology	84.336	411,579
Vocational Education—Occupational and Employment Information State Grant:	84.340	1,951,866
Title I Accountability Grants	84.342	32,417
Transitions to Teaching	84.346	152,128
School Renovation Grants	84.348	336,454
Reading First State Grants	84.349	97,846
Rural Education	84.352	192,331
English Language Acquisition Grants:	84.352	605,535
Mathematics & Science Partnership	84.358	1,723,387
Improving Teacher Quality State Grant:	84.365	5,791
Improving Teacher Quality State Grant:	84.365	1,084,690
Grants for State Assessments and Related Activities	84.366	249,204
	84.367	*
	84.367	*
	84.367	127,716
	84.369	2,492,923
Total U.S. Department of Education		\$ 171,168,028
Energy, U.S. Department of:		
National Energy Information Center	81.039	6,000
State Energy Program	81.041	\$ 514,247
Weatherization Assistance for Low-Income Person	81.042	2,553,152
Regional Biomass Energy Program:	81.079	419,357
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, B176 and Technical Analysis/Assistance	81.117	52,613
State Energy Program Special Project:	81.119	133,997
Total U.S. Department of Energy		\$ 3,679,366
Environmental Protection Agency, U.S.:		
State Indoor Radon Grants	66.032	\$ 50,838
Water Pollution Control—State and Interstate Program Support	66.419	15,741
Surveys, Studies, Investigations, and Special Purpose Grants—Section 1442 of the Safe Drinking Water Act	66.424	11,291
State Public Water System Supervisor	66.432	475,303
State Underground Water Source Protection	66.433	76,144
State Underground Water Source Protection	66.433	95,856
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements—104(b)(3) of the Clean Water Act	66.436	95,036
Water Quality Management Planning	66.454	113,748
Capitalization Grants for Clean Water State Revolving Funds	66.458	5,443,302
Nonpoint Source Implementation Grant	66.460	3,687,647
Wetland Program Grants	66.461	371,141
Capitalization Grants for Drinking Water State Revolving Fund	66.468	12,362,158
Handicap Grant Program Rural Communities:	66.470	242,473
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Cost	66.471	17,825

* Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Environmental Protection Agency, U.S., Continued:		
Water Protection Grants to the States	66.474	\$ 138,792
Environmental Protection Consolidated Grants—Program Support	66.600	188,075
Performance Partnership Grant:		
Environmental Quality, Department of	66.605	3,772,889
Environmental Quality, Department of	66.606	302,916
Surveys, Studies, Investigations, and Special Purpose Grant	66.607	35,576
Training and Fellowships for the Environmental Protection Agency	66.608	195,063
Environmental Information Exchange Network Grant Program	66.700	751,154
Consolidated Pesticide Enforcement Cooperative Agreement	66.707	233,746
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professional	66.708	9,699
Pollution Prevention Grants Program	66.709	142,532
Capacity Building Grants and Cooperative Agreements for States and Tribe	66.802	406,594
Superfund State, Political Subdivision, and Indian Tribe Site—Specific Cooperative Agreement	66.802	110,842
Leaking Underground Storage Tank Trust Fund Program	66.805	1,233,866
Leaking Underground Storage Tank Trust Fund Program	66.805	33,893
Superfund State and Indian Tribe Core Program Cooperative Agreement	66.809	206,882
State and Tribal Response Program Grants	66.817	182,730
Environmental Education Grants	66.951	670
Total U.S. Environmental Protection Agency		\$ 30,638,402
Equal Employment Opportunity Commission, U.S.:		
Employment Discrimination—Title VII of the Civil Rights Act of 1964	30.001	\$ 601,205
Total U.S. Equal Employment Opportunity Commission		\$ 601,205
Federal Emergency Management Agency:		
Community Assistance Program—State Support Services Element	83.105	\$ 49,270
Flood Mitigation Assistance Program	83.536	112,925
Hazard Mitigation Grant	83.548	2,517
National Dam Safety Program	83.550	87,182
Total Federal Emergency Management Agency		\$ 251,894
General Services Administration:		
Election Reform Payment:	39.011	\$ 470,689
Total General Services Administration		\$ 470,689
Health and Human Services, U.S. Department of:		
Public Health and Social Services Emergency Fund	93.003	\$ 447,209
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitation:	93.041	24,511
Special Programs for the Aging—Title VII, Chapter 2—Long-term Care Ombudsman Services for Older Individuals	93.042	99,691
Special Programs for the Aging—Title III, Part D—Disease Prevention and Health Promotion Service	93.043	126,354
Special Programs for the Aging Cluster		
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Center	93.044	2,437,242
Special Programs for the Aging—Title III, Part C—Nutrition Service	93.045	3,729,247
Nutrition Services Incentive Program	93.053	1,166,399
Special Programs for the Aging—Title IV and Title II—Discretionary Project:		
Alzheimer's Disease Demonstration Grants to State:	93.048	198,544
Nation Family Caregiver Support	93.051	139,268
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SEI)	93.052	1,093,976
Maternal and Child Health Federal Consolidated Program	93.104	1,493,751
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.110	369,729
Emergency Medical Services for Children	93.116	123,959
Primary Care Services—Resource Coordination and Developer	93.127	112,797
Injury Prevention and Control Research and State and Community-Based Program	93.130	208,600
Projects for Assistance in Transition from Homelessness	93.136	432,785
Childhood Lead Poisoning Prevention Projects—State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.150	316,908
Family Planning—Services	93.197	371,371
Consolidated Knowledge Development and Application (KD&A) Program	93.217	1,892,601
Traumatic Brain Injury—State Demonstration Grant Program	93.230	361,099
Absence Educator	93.234	115,569
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhance	93.238	257,220
State Rural Hospital Flexibility Program	93.238	511
Substance Abuse and Mental Health Services—Projects of Regional and National Significance	93.241	760,949
Universal Newborn Hearing Screening	93.243	69,999
State Planning Grant—Health Care Access for the Uninsured	93.251	34,050
Rural Access to Emergency Devices Grant	93.256	516,867
Immunization Grants	93.259	45,903
Drug Abuse Research Programs	93.268	7,830,538
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.279	31,785
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	11,847,232
Labor, Department of		175,204

(Continued)

^ Amounts taken from financial status reports.
 * Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Health and Human Services, U.S. Department of, Continued:		
Small Rural Hospital Improvement Grants	93.301	\$ 642,048
Promoting Safe and Stable Families	93.556	1,764,956
Temporary Assistance for Needy Families	93.558	58,246,766
Child Support Enforcement	93.563	25,701,864
Refugee and Entrant Assistance—State Administered Program	93.566	588,202
Low-Income Home Energy Assistance	93.568	2,385,222
Low-Income Home Energy Assistants	93.568	15,799,214
Community Services Block Grant	93.569	4,428,550
Community Services Block Grant Discretionary Awards—Community Food and Nutrition Childcare Cluster:	93.571	17,767
Child Care and Development Block Grant	93.575	14,888,613
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	23,265,781
Refugee and Entrant Assistance—Discretionary Grant	93.576	232,906
Refugee and Entrant Assistance—Discretionary Grants	93.576	1,083
Refugee and Entrant Assistance—Targeted Assistance	93.584	275,372
Empowerment Zones Program	93.585	1,006,007
State Court Improvement Program	93.586	173,200
Grants to States for Access and Visitation Programs	93.597	80,870
Chafee Education and Training Vouchers Program (ETV)	93.599	118,879
Head Start	93.600	140,836
Adoptive Incentive Payment	93.603	259,433
Basic Center Grant	93.623	199,383
Developmental Disabilities Basic Support and Advocacy Grant	93.630	458,497
Children's Justice Grants to States	93.643	122,741
Child Welfare Services—State Grants	93.645	1,871,809
Social Services Research and Demonstration	93.647	89,593
Foster Care—Title IV-E	93.658	23,958,363
Adoption Assistance	93.659	6,366,099
Social Services Block Grant	93.667	11,286,837
Child Abuse and Neglect State Grants	93.669	197,817
Family Violence Prevention and Services/Grants for Battered Women's Shelters—Grants to States and Indian Tribe	93.671	937,040
Chafee Foster Care Independent Living	93.674	2,523,138
State Children's Insurance Program (CHIP)	93.767	30,752,006
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	551,774
Medicare—Supplementary Medical Insurance	93.774	1,481,371
Medicaid Cluster:		
State Survey and Certification of Health Care Providers and Supplier	93.777	3,644,277
Medical Assistance Program (Medicaid)	93.778	948,986,771
Centers for Medicare and Medicaid (CMS) Research, Demonstrations, and Evaluation	93.779	578,051
Centers for Medicare and Medicaid (CMS) Research, Demonstrations, and Evaluation	93.779	203,400
Seed Grants to States for Qualified High-Risk Pools	93.781	719,841
Grants to States for Operation of Offices of Rural Health	93.913	99,201
HIV Care Formula Grants	93.917	1,702,335
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	3,940,976
Healthy Start Initiative	93.926	29,062
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	101,523
HIV Prevention Activities—Health Department Based	93.940	1,401,930
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance Assistance Programs for Chronic Disease Prevention and Control	93.944	104,949
Improving EMS/Trauma Care in Rural Areas	93.945	383,556
Block Grants for Community Mental Health Services	93.952	22,299
Block Grants for Prevention and Treatment of Substance Abuse	93.958	2,052,569
Preventive Health Services—Sexually Transmitted Diseases Control Grant	93.959	8,168,629
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	93.977	381,977
Preventive Health and Health Services Block Grant	93.988	277,977
Maternal and Child Health Services Block Grant to the State	93.991	1,889,422
National Center for Health Statistics	93.994	4,246,410
Tissue Residue Inspections	200-2000-07227 / 26.99C	210,790
Meditated Feed Inspection	223-00-4007	2,767
Food/Grain Warehouse Inspector	223-00-4052	65,525
FDA Partnership Agreement	223-00-4079	26,522
	N/A	23,282
Total U.S. Department of Health and Human Services		\$ 1,246,916,816
Homeland Security, U.S. Department of:		
State Domestic Preparedness Equipment Support Program	97.004	\$ 229,083
State Domestic Preparedness Equipment Support Program	97.004	11,739,306
Hazardous Materials Assistance Program	97.021	4,000
Community Assistance Program	97.023	52,910

^ Amounts taken from financial status reports.
 * Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

(Continued)

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Homesland Security, U.S. Department of, Continued:		
Flood Mitigation Assistance Program	97.029	\$ 9,766
Public Assistance Grants	97.036	3,813,240
Public Assistance Grants	97.036	15,302
First Responder Counter Terrorism Training Assistance	97.038	46,218
Hazard Mitigation Grant	97.039	1,765,167
National Dam Safety Program	97.041	38,259
Emergency Management at Performance Grant	97.042	1,731,785
State Fire Training Systems Grants	97.043	26,424
Cooperating Technical Partners	97.045	15,831
Pre-Disaster Mitigation Grant	97.047	270,008
State and Local All Hazards Emergency Operations Planning	97.051	274,008
Emergency Operations Center:	97.052	528
Citizens Corps	97.053	140,276
Community Emergency Response Team	97.054	122,947
		\$ 20,045,758
Total U.S. Department of Homeland Security		
Housing and Urban Development, U.S. Department of:		
Community Development Block Grants/State's Program	14.228	\$ 17,306,401
Emergency Shelter Grants Program	14.231	534,467
HOME Investment Partnerships Program	14.239	5,925,063
Fair Housing Assistance Program—State and Local	14.401	495,742
Healthy Homes Demonstration Grants	14.901	282,591
Manufactured Homes	DU100K900016698	11,495
		\$ 24,555,759
Total U.S. Department of Housing and Urban Development		
Interior, U.S. Department of:		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 3,620,008
Wildlife Restoration	15.611	3,408,369
Fish and Wildlife Management Assistance	15.608	4,542
Cooperative Endangered Species Conservation Fund	15.615	321,589
Wildlife Conservation and Appreciation	15.617	224,580
Sporting and Boating Safety Act	15.622	100,000
Wildlife Conservation and Restoration	15.625	252,272
Landowner Incentive	15.633	92,936
State Wildlife Grants	15.634	932,354
Historic Preservation Fund Grants-In-Aid	15.904	499,903
Outdoor Recreation—Acquisition, Development, and Planning (Land and Water Conservation Fund Grants)	15.916	687,991
Small Reclamation Projects	15.000	123,610
Reclamations States Emergency Drought Relief	15.000	111,590
Save America's Treasures	31-02-ML-1280	320,155
		\$ 10,696,899
Justice, U.S. Department of:		
Offender Reentry Program	16.202	\$ 10,416
Sex Offender Management Discretionary Grant	16.203	11,837
Juvenile Accountability Incentive Block Grant	16.523	1,770,383
Technical Assistance and Training Initiative	16.526	85,258
Juvenile Justice and Delinquency Prevention—Allocation to State	16.540	747,357
Missing Children's Assistance	16.543	195,524
Title V Delinquency Prevention Program	16.548	164,853
Part E State Challenge Activities	16.549	48,136
State Justice Statistics Program for Statistical Analysis Center	16.550	52,449
National Criminal History Improvement Program	16.554	483,350
National Institute of Justice Research, Evaluation, and Development Project Grant	16.560	39,297
National Institute of Justice Visiting Fellowships	16.561	137,755
Crime Victim Assistance	16.575	2,410,008
Crime Victim Compensation	16.576	142,870
Byrne Formula Grant Program	16.579	3,192,105
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	173,379
Violent Offender Incarceration and Truth in Sentencing Incentive Grant	16.586	3,125,585
Violence Against Women Formula Grant:	16.588	1,197,907
Violence Against Women Formula Grant:	16.588	23,920
Residential Substance Abuse Treatment for State Prisoner	16.593	479,338
State and Local Anti-Terrorism Training	16.614	78,144
Public Safety Partnership and Community Policing Grant	16.710	53,065
Enforcing Underage Drinking Laws Program	16.727	376,490
CJIS Project Manager	78.990	117,856

(Continued)

^ Amounts taken from financial status reports.
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STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	CFDA or Grant #	2004 Expenditures
Justice, U.S. Department of, Continued:		
CJIS Crime History Grants	78.990	\$ 328,346
Steuth for Task Forces	78.990	55,250
Misc Federal Funds	N/A	3,498
		<u>\$ 15,504,316</u>
Total U.S. Department of Justice		
Labor, U.S. Department of:		
Labor Force Statistics	17.002	\$ 952,293
Compensation and Working Conditions	17.005	31,852
Labor Certification for Alien Workers	17.203	138,431
Employment Services Cluster		
Employment Services	17.207	7,005,891
Disabled Veterans' Outreach Program	17.801	304,573
Local Veterans' Employment Representative Program	17.804	598,618
Unemployment Insurance—Federal	17.225	20,977,800
Unemployment Insurance—State	17.225	119,305,601
Unemployment Insurance—Admi	17.225	14,221,716
Senior Community Service Employment Program	17.235	651,124
Trade Adjustment Assistance—Worker	17.245	945,739
Employment Services and Job Training Pilots—Demonstrations and Research	17.249	57,046
Welfare-to-Work Grants to States and Localities	17.253	930,379
One-Stop Career Center Initiative	17.257	379,031
Workforce Investment Act Cluster		
WIA Adult Program	17.258	2,336,542
WIA Youth Activities	17.259	2,458,524
WIA Dislocated Workers	17.260	2,985,768
Employment and Training Administration Pilots, Demonstrations, and Research Project	17.261	68,062
Work Incentives Grant	17.266	11,157
WIA Incentive Grants—Section 503 Grants to States	17.267	52,121
Consultation Agreement	17.504	473,794
Technical Assistance Program	17.807	4,509
		<u>\$ 174,885,571</u>
Total U.S. Department of Labor		
Library of Congress:		
Library Archives Film Preservation	N/A	\$ 4,170
		<u>\$ 4,170</u>
Total Library of Congress		
National Foundation of Arts and the Humanities:		
Promotion of the Arts—Partnership Agreement	45.025	\$ 883,326
Promotion of the Arts—Leadership Initiatives	45.026	5,962
Promotion of the Humanities—Professional Development	45.103	56,086
Museum for America Grant	45.301	1,350
State Library Program	45.310	907,217
		<u>\$ 1,851,891</u>
Total National Foundation of Arts and the Humanities		
Social Security Administration:		
Disability Insurance/SSI Cluster	96.001	\$ 8,266,481
Social Security—Disability Insurance	96.006	271,390
Supplemental Security Income	96.006	178,605
Supplemental Security Income		<u>\$ 8,716,476</u>
Total Social Security Administration		
Transportation, U.S. Department of:		
Airport Improvement Program	20.106	\$ 14,802,428
Highway Planning and Construction	20.205	659,161
Highway Planning and Construction	20.205	239,766,312
Motor Carrier Safety	20.217	9,000
National Motor Carrier Safety	20.218	33,767
National Motor Carrier Safety	20.218	1,538,219
Federal Transit—Metropolitan Planning Grants	20.505	137,259
Formula Grants for Other Than Urbanized Areas	20.509	2,507,757
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	711,354
JobAccess: Reverse Commut	20.516	57,603
Highway Safety Cluster		
State and Community Highway Safety	20.600	1,729,048
State and Community Highway Safety	20.600	5,207
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	420,977

(Continued)

^ - Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By Federal Agency
 For the Fiscal Year Ended June 30, 2004

Federal Agency/Program Title	State Agency	CFDA or Grant #	2004 Expenditures
Transportation, U.S. Department of, Continued:			
Highway-Safety Cluster, continued			
Occupant Protection	Motor Vehicles, Department of	20.602	\$ 110,335
Federal Highway Safety Data Improvements Incentive Grant	Health and Human Services System	20.603	24,650
Federal Highway Safety Data Improvements Incentive Grant	Motor Vehicles, Department of	20.603	160,732
Safety Incentive Grants for Use of Seatbelts	Motor Vehicles, Department of	20.604	47,482
Pipeline Safety	Fire Marshal	20.700	149,619
Interagency Hazardous Materials Public Sector Training and Planning Grant	Military Department	20.703	157,315
Highway Related Safety Grant	Roads, Department of	DTMHE22-87-C-0-76	41,349
Statewide Occupant Protection—Special Selective Enforcement	Motor Vehicles, Department of	DTNHE2-00-G-09075	177,211
Joint Federal—State Motor Fuel Tax Compliance Project	Revenue, Department of	TCP-0001003	12,285
Total U.S. Department of Transportation			\$ 263,259,070
Treasury, U.S. Department of:			
Gang Resistance Education and Training	State Patrol	16.757	\$ 12,882
State Fiscal Relief Block Grant	Treasurer, Nebraska State	21.000	58,191,862
Investigative Forfeiture	Revenue, Department of	N/A	*
Total U.S. Department of Treasury			\$ 58,204,764
United States Coast Guard:			
Highway Training and Education	Law Enforcement and Criminal Justice, Commission for	20.215	\$ 47,330
Federal Highway Safety Data Improvements Incentive Grant	Law Enforcement and Criminal Justice, Commission for	20.603	4,500
Total United States Coast Guard			\$ 51,830
Veterans Affairs, U.S. Department of:			
Grants to States for Construction of State Home Facility:	Health and Human Services System	64.005	\$ 418,721
Veterans State Domiciliary Care	Health and Human Services System	64.014	^ 405,378
Veterans State Nursing Home Care	Health and Human Services System	64.015	^ 9,333,803
Total U.S. Department of Veterans Affairs			\$ 10,157,902
TOTAL FEDERAL AWARDS			\$ 2,277,627,019

^ - Amounts taken from financial status reports.
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 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	Federal Agency	CFDA or Grant #	2004 Expenditures
Administrative Services, Department of:			
Save America's Treasures:	Interior, U.S. Department of	31-02-ML-1280	\$ 320,155
			\$ 320,155
Total Department of Administrative Services			\$ 320,155
Aeronautics, Department of:			
Airport Improvement Program	Transportation, U.S. Department of	20.106	\$ 14,802,428
			\$ 14,802,428
Total Department of Aeronautics			\$ 14,802,428
Agriculture, Department of:			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 308,509
State Mediation Grants	Agriculture, U.S. Department of	10.435	149,161
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	167,876
Consolidated Pesticide Enforcement Cooperative Agreement	Environmental Protection Agency, U.S.	66.700	751,154
Nebraska Plant Pest Homeland Security Project	Agriculture, U.S. Department of	02-8456-0601-CA	42,000
Homeland Security Cooperative Agreement	Agriculture, U.S. Department of	02-9731-0301-CA	356,203
National Organic Certification Cost Share Program	Agriculture, U.S. Department of	12-25-A-4160	19,915
Tissue Residue Inspections	Health and Human Services, U.S. Department of	223-00-4007	2,767
Medicated Feed Inspector	Health and Human Services, U.S. Department of	223-00-4032	65,525
Food/Grain Warehouse Inspector	Health and Human Services, U.S. Department of	223-00-4070	26,522
Food Safety Task Force on Meat & Poultry Processing	Health and Human Services, U.S. Department of	FSIS 18-B-02	11,444
State Grants to Promote Agriculture and the Emergency Food Assistance Program	Agriculture, U.S. Department of	N/A	1,115
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	183,880
FDA Partnership Agreements	Health and Human Services, U.S. Department of	N/A	23,282
			\$ 2,109,353
Total Department of Agriculture			\$ 2,109,353
Arts Council:			
Promotion of the Arts—Partnership Agreement	National Foundation of Arts and the Humanities	45.025	\$ 883,326
Promotion of the Arts—Leadership Initiative:	National Foundation of Arts and the Humanities	45.026	3,962
			\$ 887,288
Total Arts Council			\$ 887,288
Blind and Visually Impaired Commission:			
Rehabilitation Services—Vocational Rehabilitation Grants to State:	Education, U.S. Department of	84.126	\$ 2,258,958
Independent Living—State Grants:	Education, U.S. Department of	84.169	40,050
Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	224,351
Supported Employment Services for Individuals with Severe Disabilities:	Education, U.S. Department of	84.187	22,950
Rehabilitation Services Demonstration and Training Programs	Education, U.S. Department of	84.235	299,815
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	68,942
Disability Insurance/SSI Cluster:			
Supplemental Security Income:	Social Security Administrator	96.006	\$ 271,390
			\$ 3,186,456
Total Blind and Visually Impaired Commission			\$ 3,186,456
Corrections, Department of:			
Offender Reentry Program	Justice, U.S. Department of	16.202	\$ 10,416
Violent Offender Incarceration and Truth in Sentencing Incentive Grant	Justice, U.S. Department of	16.586	3,125,585
Grants to States for Incarcerated Youth Offender	Education, U.S. Department of	84.331	21,407
			\$ 3,157,408
Total Department of Corrections			\$ 3,157,408
Economic Development, Department of:			
RHS Rural Community Development	Agriculture, U.S. Department of	10.446	\$ 50,907
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	566,728
Domestic Travel Program	Commerce, U.S. Department of	11.950	194,815
Community Development Block Grants/State's Program:	Commerce, U.S. Department of	14.228	17,306,401
HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	5,925,063
			\$ 24,043,914
Total Department of Economic Development			\$ 24,043,914
Education, Department of:			
Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	\$ 6,922,198
National School Lunch Program	Agriculture, U.S. Department of	10.555	35,473,146
Special Milk Program for Children:	Agriculture, U.S. Department of	10.556	77,508
Summer Food Service Program for Children:	Agriculture, U.S. Department of	10.559	731,024
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	22,438,857
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,000,592
Adult Education—State Grant Program	Education, U.S. Department of	84.002	2,382,759
Title I Grants to Local Educational Agencies:	Education, U.S. Department of	84.010	44,630,268
Migrant Education—State Grant Program:	Education, U.S. Department of	84.011	4,410,462
Title I Program for Neglected and Delinquent Children:	Education, U.S. Department of	84.013	281,297
Special Education Cluster:			
Special Education—Grants to States	Education, U.S. Department of	84.027	\$ 56,202,621
Special Education—Preschool Grants	Education, U.S. Department of	84.173	2,946,545
Vocational Education—Basic Grants to States:	Education, U.S. Department of	84.048	7,771,287
Rehabilitation Services—Vocational Rehabilitation Grants to States:	Education, U.S. Department of	84.126	13,577,228
			*

* Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	CFDA or Grant #	2004 Expenditures
Education, Department of, Continued:		
Rehabilitation Services—Client Assistance Program	84.161	\$ 103,368
Independent Living—State Grants	84.169	221,111
Special Education—Grants for Infants and Families with Disabilities	84.181	2,329,746
Safe and Drug-Free Schools and Communities—National Program	84.184	77,225
Byrd Honors Scholarships	84.185	247,500
Safe and Drug-Free Schools and Communities—State Grant	84.186	1,860,886
Star Schools	84.196	163,176
Even Start—State Educational Agency	84.203	15
Fund for the Improvement of Education	84.213	1,035,714
Capital Expenses	84.215	232,795
Assistive Technology	84.216	3,893
Tech-Prep Education	84.224	378,052
National Institute for Literacy	84.243	773,768
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.257	767
Eisenhower Professional Development State Grant	84.265	29,838
Twenty-First Century Community Learning Center	84.281	378,603
Innovative Education Program Strategic	84.287	1,080,626
Education Technology State Grant	84.298	2,095,541
Special Education—State Program Improvement Grants for Children with Disabilities	84.318	2,104,362
Special Education—Technical Assistance and Dissemination to Improve Services Results for Children with Disabilities	84.323	574,828
Advanced Placement Program	84.326	122,232
Comprehensive School Reform Demonstration	84.330	2,350
Teacher Quality Enhancement Grant	84.332	987,327
Class Size Reduction	84.336	411,579
Preparing Tomorrow's Teachers to Use Technology	84.340	1,951,866
Vocational Education—Occupational and Employment Information State Grant	84.342	32,417
Title I Accountability Grants	84.346	152,128
Early Childhood Educator Professional Development	84.348	336,454
School Renovation Grants	84.349	97,846
Reading First State Grants	84.350	192,331
Rural Education	84.352	608,535
English Language Acquisition Grants	84.357	1,723,387
Mathematics & Science Partnership	84.358	5,791
Improving Teacher Quality State Grant	84.365	1,084,690
Grants for State Assessments and Related Activities	84.366	249,204
Traumatic Brain Injury—State Demonstration Grant Program	84.367	10,522,807
Refugee and Entrant Assistance—Discretionary Grant	84.369	2,492,923
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Obe	93.234	115,369
Important Health Problems	93.576	232,906
Learn and Serve America—School and Community-Based Program	93.600	140,836
Disability Insurance/SSI Cluster:		
Social Security—Disability Insurance	93.938	101,523
Supplemental Security Income	94.004	70,776
Total Department of Education		\$ 8,266,481
Educational Telecommunications Commission:		
Public Telecommunications Facilities—Planning and Construction	96.001	178,605
Total Educational Telecommunications Commission		\$ 178,605
Environmental Quality, Department of:		
Water Pollution Control—State and Interstate Program Support	66.419	\$ 15,741
Surveys, Studies, Investigations, and Special Purpose Grants—Section 1442 of the Safe Drinking Water Act	66.424	11,291
State Underground Water Source Protection	66.433	76,144
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements—104(b)(3) of the Clean Water Act	66.436	95,036
Water Quality Management Planning	66.454	113,748
Capitalization Grants for Clean Water State Revolving Fund	66.458	5,443,302
Nonpoint Source Implementation Grants	66.460	3,687,647
Capitalization Grants for Drinking Water State Revolving Fund	66.468	12,382,138
Handicap Grant Program Rural Communities	66.470	242,473
Performance Partnership Grants	66.605	3,722,889
Surveys, Studies, Investigations, and Special Purpose Grant:	66.606	302,916
Training and Fellowships for the Environmental Protection Agency	66.607	35,576
Environmental Information Exchange Network Grant Program	66.608	195,063
Pollution Prevention Grants Program	66.708	9,699
Capacity Building Grants and Cooperative Agreements for States and Tribes	66.709	142,532
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreement	66.802	406,594
Commerce, U.S. Department of		\$ 460,252
Environmental Protection Agency, U.S.		\$ 15,741
Environmental Protection Agency, U.S.		11,291
Environmental Protection Agency, U.S.		76,144
Environmental Protection Agency, U.S.		95,036
Environmental Protection Agency, U.S.		113,748
Environmental Protection Agency, U.S.		5,443,302
Environmental Protection Agency, U.S.		3,687,647
Environmental Protection Agency, U.S.		12,382,138
Environmental Protection Agency, U.S.		242,473
Environmental Protection Agency, U.S.		3,722,889
Environmental Protection Agency, U.S.		302,916
Environmental Protection Agency, U.S.		35,576
Environmental Protection Agency, U.S.		195,063
Environmental Protection Agency, U.S.		9,699
Environmental Protection Agency, U.S.		142,532
Environmental Protection Agency, U.S.		406,594

(Continued)

* Amounts taken from financial status reports.
 ** Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	Federal Agency	CFDA or Grant #	2004 Expenditures
Environmental Quality, Department of, Continued:			
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	\$ 1,233,866
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	206,882
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	182,730
Defense Environmental Restoration Program	Defense, U.S. Department of	NE-03-1	124,894
Long Pine Rural Clean Water Program	Agriculture, U. S. Department of	N/A	4
			<u>\$ 2,651,165</u>
Total Department of Environmental Quality			
Equal Opportunity Commission:			
Fair Housing Assistance Program—State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 495,742
Employment Discrimination—Title VII of the Civil Rights Act of 1964	Equal Employment Opportunity Commission, U.S.	30.001	601,205
			<u>\$ 1,096,947</u>
Total Equal Opportunity Commission			
Ethanol Board:			
Rural Development	Agriculture, U. S. Department of	32.055-0470491233	\$ 50,000
			<u>\$ 50,000</u>
Fire Marshal:			
Pipeline Safety	Transportation, U.S. Department of	20.700	\$ 149,619
Environmental Protection Consolidated Grants-Program Support	Environmental Protection Agency, U.S.	66.600	188,075
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	33,893
State Domestic Preparedness Equipment Support Program	Department of Homeland Security*	97.004	229,083
First Responder Counter Terrorism Training Assistance	Department of Homeland Security*	97.038	46,218
State Fire Training Systems Grants	Department of Homeland Security*	97.043	26,424
			<u>\$ 673,312</u>
Total Fire Marshal			
Game and Parks Commission:			
Small Reclamation Projects	Interior, U.S. Department of	15.000	\$ 123,610
Fish and Wildlife Cluster:			
Sport Fish Restoration	Interior, U.S. Department of	15.605	3,620,008
Wildlife Restoration	Interior, U.S. Department of	15.611	3,405,369
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	4,542
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	321,589
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	224,580
Sporting and Boating Safety Act	Interior, U.S. Department of	15.622	100,000
Wildlife Conservation and Restoration	Interior, U.S. Department of	15.625	252,272
Landowner Incentive	Interior, U.S. Department of	15.633	92,936
State Wildlife Grants	Interior, U.S. Department of	15.634	932,354
Outdoor Recreation—Acquisition, Development, and Planning (Land and Water Conservation Fund Grant)	Interior, U.S. Department of	15.916	687,991
Highway Planning and Constructor	Transportation, U.S. Department of	20.205	659,161
Wetland Program Grants	Environmental Protection Agency*	66.461	37,141
Environmental Education Grants	Environmental Protection Agency*	66.951	670
			<u>\$ 10,462,223</u>
Total Game and Parks Commission			
Governor:			
National Energy Information Center	Energy, U.S. Department of	81.039	\$ 6,000
State Energy Program	Energy, U.S. Department of	81.041	514,247
Weatherization Assistance for Low-Income Person	Energy, U.S. Department of	81.042	2,553,152
Regional Biomass Energy Programs	Energy, U.S. Department of	81.079	419,357
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assist	Energy, U.S. Department of	81.117	52,613
State Energy Program Special Project	Energy, U.S. Department of	81.119	133,997
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	2,385,222
			<u>\$ 6,064,588</u>
Health and Human Services System:			
Food Donation	Agriculture, U.S. Department of	10.550	* ^ \$ 8,602,392
Food Stamp Cluster:			
Food Stamps	Agriculture, U.S. Department of	10.551	* ^ 105,822,784
State Administrative Matching Grants for Food Stamp Program	Agriculture, U.S. Department of	10.561	* ^ 14,666,104
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	22,000,098
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	145,479
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	^ 2,831,354
Emergency Food Assistance Cluster			
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	186,247
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	^ 1,560,580
Nutrition Services Incentive	Agriculture, U.S. Department of	10.570	40,573
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	534,467
Healthy Homes Demonstration Grant	Housing & Urban Development, U.S. Department of	14.901	282,591
Sex Offender Management Discretionary Grant	Justice, U.S. Department of	16.203	11,837
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	651,124
Federal Highway Safety Data Improvements Incentive Grant:	Transportation, U.S. Department of	20.603	24,650

(Continued)

* - Amounts taken from financial status reports.
 ^ - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	CFDA or Grant #	2004 Expenditures
Health and Human Services System, Continued:		
Grants to States for Construction of State Home Facilities:		
Veterans State Domiciliary Care	64.005	418,721
Veterans State Nursing Home Care	64.014	405,378
State Indoor Radon Grants	64.015	9,333,803
State Public Water System Supervisor	66.032	50,838
State Grants to Reimburs Operators of Small Water Systems for Training and Certification Cost	66.432	475,303
Water Protection Grants to the State	66.471	17,825
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professional	66.474	138,792
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreement	66.707	235,746
State and Ding-Free Schools and Communities—State Grant	66.802	110,842
Public Health and Social Services Emergency Fund	84.186	15,903
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitive	93.003	447,209
Special Programs for the Aging—Title VII, Chapter 2—Long-term Care Ombudsman Services for Older Individuals	93.041	24,511
Special Programs for the Aging—Title III, Part D—Disease Prevention and Health Promotion Service	93.042	99,691
Special Programs for the Aging Cluster	93.043	126,354
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Center	93.044	2,437,242
Nutrition Services Incentive Program	93.045	3,729,247
Special Programs for the Aging—Title IV and Title II—Discretionary Project	93.053	1,166,399
Alzheimer's Disease Demonstration Grants to State	93.048	198,544
Nation Family Caregiver Support	93.051	139,268
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SEI)	93.052	1,093,976
Maternal and Child Health Federal Consolidated Program	93.104	1,493,751
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.110	349,729
Emergency Medical Services for Children	93.116	123,959
Primary Care Services—Resource Coordination and Developer	93.127	112,797
Injury Prevention and Control Research and State and Community-Based Program	93.130	208,600
Projects for Assistance in Transition from Homelessness	93.136	432,785
Childhood Lead Poisoning Prevention Projects—State and Local Childhood Lead Poisoning Prevention and Surveillance c	93.150	316,908
Blood Lead Levels in Children		
Family Planning—Services	93.197	371,371
Consolidated Knowledge Development and Application (KD&A) Program	93.217	1,892,601
Abstinence Educator	93.230	361,099
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhance	93.235	257,220
State Rural Hospital Flexibility Program	93.238	511
Substance Abuse and Mental Health Services—Projects of Regional and National Significance	93.241	760,949
Universal Newborn Hearing Screening	93.243	69,999
State Planning Grant—Health Care Access for the Uninsured	93.251	34,050
Rural Access to Emergency Devices Grant	93.256	516,867
Immunization Grants	93.259	45,903
Drug-Abuse Research Programs	93.268	7,830,538
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.279	31,785
Small Rural Hospital Improvement Grants	93.283	11,847,232
Promoting Safe and Stable Families	93.301	642,048
Temporary Assistance for Needy Families	93.356	1,764,956
Child Support Enforcement	93.358	58,246,766
Refugee and Entrant Assistance—State Administered Program	93.363	25,701,864
Low-Income Home Energy Assistance	93.366	588,202
Community Services Block Grant	93.568	15,799,214
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.569	4,428,550
Child Care Cluster:	93.571	17,767
Child Care and Development Block Grant		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.575	14,888,613
Refugee and Entrant Assistance—Discretionary Grants	93.596	23,265,781
Refugee and Entrant Assistance—Targeted Assistance		
Employment Zones Program	93.584	1,053
Grants to States for Access and Visitation Program	93.585	275,372
Child Education and Training Vouchers Program (ETV)	93.597	1,006,007
Adaptive Incentive Payment	93.599	80,870
Basic Center Grant	93.603	118,879
Developmental Disabilities Basic Support and Advocacy Grant	93.605	259,453
Children's Justice Grants to States	93.623	199,383
Child Welfare Services—State Grants	93.630	458,497
Social Services Research and Demonstration	93.643	122,741
Foster Care—Title IV-E	93.645	1,871,809
Adoption Assistance	93.647	89,593
Social Services Block Grant	93.658	23,958,563
Child Abuse and Neglect State Grants	93.659	6,565,099
	93.667	11,286,837
	93.669	197,817

(Continued)

^ Amounts taken from financial status reports.
 * Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	CFDA or Grant #	2004 Expenditures
Health and Human Services System, Continued:		
Family Violence Prevention and Services/Grants for Battered Women's Shelters—Grants to States and Indian Tribe	93.671	\$ 937,040
Chafee Foster Care Independent Living	93.674	2,523,138
State Children's Insurance Program (CHIP)	93.767	30,752,006
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	551,774
Medicare—Supplementary Medical Insurance	93.774	1,481,371
Medicaid Cluster:		
State Survey and Certification of Health Care Providers and Supplier	93.777	3,644,277
Medical Assistance Program (Medicaid)	93.778	948,986,771
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluation	93.779	578,051
Grants to States for Operation of Offices of Rural Health	93.913	99,201
HIV Care Formula Grants	93.917	1,710,235
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	3,940,976
Healthy Start Initiative	93.926	29,062
HIV Prevention Activities—Health Department-Based	93.940	1,401,930
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	104,949
Assistance Programs for Chronic Disease Prevention and Control	93.945	383,556
Improving EMS/ Trauma Care in Rural Areas	93.952	22,299
Block Grants for Community Mental Health Services	93.958	2,052,569
Block Grants for Prevention and Treatment of Substance Abuse	93.959	8,168,629
Preventive Health Services—Sexually Transmitted Diseases Control Grant	93.977	381,977
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	93.988	277,977
Preventive Health and Health Services Block Grant	93.991	1,889,422
Maternal and Child Health Services Block Grant to the State	93.994	4,246,410
State Commissions	94.003	123,295
AmeriCorps	94.006	828,670
Planning and Program Development Grants	94.007	41,826
Training and Technical Assistance	94.009	84,778
National Center for Health Statistics	200-2000-07227 / 26.99C	210,790
Total Health and Human Services System		\$ 1,411,991,399
Historic Society:		
Historic Preservation Fund Grants-In-Aid	15.904	\$ 499,903
Promotion of the Humanities—Professional Development	45.163	56,036
Museum for America Grant	45.301	1,350
Library Archives Film Preservation	N/A	4,170
Total Historic Society		\$ 561,459
Insurance, Department of:		
Centers for Medicare and Medicaid (CMS) Research, Demonstrations, and Evaluation	93.779	\$ 203,400
Seed Grants to States for Qualified High-Risk Pools	93.781	719,841
Total Department of Insurance		\$ 923,241
Labor, Department of:		
Labor Force Statistics	17.002	\$ 952,293
Labor Certification for Alien Workers	17.203	138,431
Employment Services Cluster		
Employment Services	17.207	7,005,891
Disabled Veterans' Outreach Program	17.801	304,573
Local Veterans' Employment Representative Program	17.804	598,618
Unemployment Insurance—Federal	17.225	20,977,800
Unemployment Insurance—State	17.225	119,303,601
Trade Adjustment Assistance—Admi	17.225	14,221,716
Trade Adjustment Assistance—Workers	17.245	948,739
Employment Services and Job Training Pilots—Demonstrations and Research	17.249	57,046
Welfare-to-Work Grants to States and Localities	17.253	930,379
One-Stop Career Center Initiative	17.257	379,031
Workforce Investment Act Cluster		
WIA Adult Program	17.258	2,336,542
WIA Youth Activities	17.259	2,455,524
WIA Dislocated Workers	17.260	2,985,768
Employment and Training Administration Pilots, Demonstrations, and Research Project	17.261	68,062
Work Incentives Grant	17.266	11,157
WIA Incentive Grants—Section 503 Grants to States	17.267	52,121
Consultation Agreements	17.904	473,794
Technical Assistance Program	17.907	4,509
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	175,204
Total Department of Labor		\$ 174,377,799

(Continued)

^ Amounts taken from financial status reports.
 * Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	CFDA or Grant #	2004 Expenditures
Law Enforcement and Criminal Justice, Commission for:		
Juvenile Accountability Incentive Block Grant	16.523	\$ 1,770,383
Technical Assistance and Training Initiative	16.526	85,258
Juvenile Justice and Delinquency Prevention—Allocation to State	16.540	747,357
Title V Delinquency Prevention Program	16.548	164,853
Part E State Challenge Activities	16.549	48,136
State Justice Statistics Program for Statistical Analysis Center	16.550	52,449
Crime Victim Assistance	16.575	2,410,008
Crime Victim Compensation	16.576	142,870
Byrne Formula Grant Program	16.579	3,192,105
Violence Against Women Formula Grant	16.588	1,197,907
Residential Substance Abuse Treatment for State Prisoner	16.593	479,338
Highway Training and Educator	20.215	47,330
Federal Highway Safety Data Improvements Incentive Grant	20.603	4,500
CHS Project Manager	78.990	117,856
CHS Crime History Grants	78.990	328,346
South for Task Forces	78.990	55,250
Misc Federal Funds	N/A	3,498
		<u>\$ 10,847,444</u>
Total Commission for Law Enforcement and Criminal Justice		
Library Commission:		
State Library Program	45.310	\$ 907,217
		<u>\$ 907,217</u>
Total Library Commission		
Military Department:		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	\$ 9,809,901
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	157,315
State Domestic Preparedness Equipment Support Program	97.004	11,739,306
Hazardous Materials Assistance Program	97.021	4,000
Public Assistance Grants	97.036	3,813,240
Hazard Mitigation Grant	97.039	1,765,167
Emergency Management Performance Grant	97.042	1,731,785
Pre-Disaster Mitigation Grant	97.047	20,708
State and Local All Hazards Emergency Operations Planning	97.061	274,008
Emergency Operations Center	97.062	528
Citizens Corps	97.063	140,276
Community Emergency Response Team	97.064	122,947
		<u>\$ 29,579,181</u>
Total Military Department		
Motor Vehicles, Department of:		
Enforcing Underage Drinking Laws Program	16.727	\$ 376,430
Motor Carrier Safety	20.217	9,000
National Motor Carrier Safety Highway Safety Cluster	20.218	33,767
State and Community Highway Safety	20.600	1,729,048
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	420,977
Occupant Protection	20.602	110,335
Federal Highway Safety Data Improvements Incentive Grant:	20.603	160,732
Safety Incentive Grants for Use of Seatbelts	20.604	47,482
Statewide Occupant Protection—Special Selective Enforcer	DTNH22-00-G-09075	177,211
		<u>\$ 3,064,982</u>
Total Department of Motor Vehicles		
Natural Resources, Department of:		
Reclamation States Emergency Drought Relief	15.000	\$ 111,590
Community Assistance Program—State Support Services Element	83.105	49,270
Flood Mitigation Assistance Program	83.536	112,925
Hazard Mitigation Grant	83.548	2,517
National Dam Safety Program	83.550	87,182
Community Assistance Program	97.023	52,910
Flood Mitigation Assistance Program	97.029	9,766
National Dam Safety Program	97.041	38,259
Cooperating Technical Partners	97.045	15,831
		<u>\$ 480,250</u>
Total Department of Natural Resources		
Oil and Gas Commission:		
State Underground Water Source Protection	66.433	\$ 93,856
		<u>\$ 93,856</u>
Total Oil and Gas Commission		

(Continued)

^ - Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA
 Schedule of Expenditures of Federal Awards—By State Agency
 For the Fiscal Year Ended June 30, 2004

State Agency/Program Title	CFDA or Grant #	2004 Expenditures
Postsecondary Education, Coordinating Commission for:		
Leveraging Educational Assistance Partnership	84.069	\$ 1,030,858
Eisenhower Professional Development State Grant	84.281	191,930
Improving Teacher Quality State Grant	84.367	127,716
Total Coordinating Commission for Postsecondary Education		\$ 1,350,504
Public Service Commission:		
Manufactured Homes	DU100K900016698	\$ 11,495
Total Public Service Commission		\$ 11,495
Revenue, Department of:		
Joint Federal-State Motor Fuel Tax Compliance Project	TCP-0001003	\$ 12,285
Investigative Forfeiture	N/A	20
Total Department of Revenue		\$ 12,305
Roads, Department of:		
Highway Planning and Construction	20.205	\$ 239,766,312
Federal Transit—Metropolitan Planning Grants	20.505	137,259
Formula Grants for Other Than Urbanized Areas	20.509	2,507,757
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	711,354
JobAccess: Reverse Commut	20.516	57,603
Highway-Related Safety Grant	DTMH22-87-C-0-76	41,349
Total Department of Roads		\$ 243,221,634
Rural Development Commission:		
National Rural Development Partnership	43-3157-8-RDP03	\$ 17,148
Total Rural Development Commission		\$ 17,148
Secretary of State:		
Election Reform Payment	39.011	\$ 470,689
Total Secretary of State		\$ 470,689
State Patrol:		
Missing Children's Assistance	16.543	\$ 198,524
National Criminal History Improvement Program	16.554	483,350
National Institute of Justice Research, Evaluation, and Development Project Grant	16.560	39,297
National Institute of Justice Visiting Fellowships	16.561	137,755
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	173,379
Violence Against Women Formula Grants	16.588	23,920
State and Local Anti-Terrorism Training	16.614	78,144
Public Safety Partnership and Community Policing Grant	16.710	53,065
Gang Resistance Education and Training	16.737	12,882
National Motor Carrier Safety	20.218	1,536,219
State and Community Highway Safety	20.600	3,207
Public Assistance Grants	97.036	15,302
Total State Patrol		\$ 2,756,044
Supreme Court, Nebraska:		
State Court Improvement Program	93.586	\$ 173,200
Total Nebraska Supreme Court		\$ 173,200
Treasurer, Nebraska State:		
State Fiscal Relief Block Grant	21.000	\$ 58,191,862
Total Nebraska State Treasurer		\$ 58,191,862
Workers' Compensation Court:		
Compensation and Working Conditions	17.005	\$ 31,852
Total Workers' Compensation Court		\$ 31,852
TOTAL FEDERAL AWARDS		
		\$ 2,277,627,019

^ - Amounts taken from financial status reports.
 * - Represents major programs.
 See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal awards programs of the State of Nebraska (the State), except as noted in note 2 below. The State's reporting entity is defined in note 1(b) to the State's financial statements. Federal awards received directly from federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective federal agency. Due to the decentralized operations of the State, the accumulation of amounts passed to subrecipients by the State is not practical.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The State's reporting entity is defined in note 1(b) to the financial statements. The accompanying Schedule includes the federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2004.

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

University of Nebraska
Nebraska State College System

(b) Basis of Presentation

The accompanying Schedule presents total expenditures for each federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA), whenever possible.

Federal Awards—Pursuant to OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal awards, including food stamps, food commodities, food vouchers, surplus property, and vaccines, are included as federal awards and are reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals.

Major Programs—In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are considered major programs.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

(c) Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting, except for certain amounts reported by the Health and Human Services System (HHSS). The amounts for HHSS denoted with a caret (^) were taken from the federal financial status reports.

Grants Between State Agencies—Certain primary recipient State agencies pass grant money through to subrecipient State agencies. These transactions are only shown in the primary recipient’s expenditures on the accompanying Schedule to avoid overstating the aggregate level of federal awards expended by the State. However, purchases of services between State agencies using federal moneys are reported as expenditures by the purchasing agency and as revenue for services by the providing agency in the State’s basic financial statements.

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

Nonmonetary Assistance—The Schedule contains amounts for nonmonetary assistance programs. The Food Stamp program is presented at the dollar value of food stamp coupons disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The Childhood Immunization vaccines are presented at the value assigned by the U.S. Department of Health and Human Services.

Fixed-Price Contracts—Certain federal awards programs are reimbursed based on a fixed price for a service and not the actual expenditure made by the State. Under these circumstances, the amounts shown on the Schedule represents the amount of assistance received from the federal government, not the amount expended by the State.

(3) Nonmonetary Assistance Inventory

As described in note 2, nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2004, the following inventories of nonmonetary assistance at the State level existed:

Assistance	Inventory balance at June 30, 2004
Food Commodities	\$ 725,872
Vaccines	853,984

(4) Commodity Supplemental Food Program and Childhood Immunization Grants

As described in note 2, included in expenditures for the Commodity Supplemental Food program are \$2,010,255 of nonmonetary federal assistance in the form of food commodities. The U.S. Department of

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Agriculture, upon direction from the HHSS, delivers the commodities directly to the subrecipients for distribution. Included in the expenditures for the Childhood Immunization Grants is \$5,922,258 of nonmonetary federal assistance in the form of vaccines.

(5) Federal Loans Outstanding

The State administers the following loan programs for which the federal government imposes continuing compliance requirements (other than repayment of the loan) on the following outstanding balances:

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding balance at June 30, 2004</u>
20.308	Local Rail Freight Assistance Loan Program	\$ 95,798
66.458	Capitalization Grants for Clean Water State Revolving Funds	85,256,842
66.468	Capitalization Grants for Drinking Water State Revolving Fund	53,300,215
84.176	Paul Douglass Teacher Scholarship Loan Program	194,598

New loans from these programs in the amount of \$16,443,674 are included as current year expenditures in the Schedule.

(6) Oil Overcharge Settlement Funds

The Nebraska Energy Office has committed various Oil Overcharge Settlement funds for use in a revolving loan program. Funds, which have been loaned and repaid, are available for new loans. Outstanding loan balances of Oil Overcharge Settlement funds are not included in the determination of major federal award programs since the federal government does not impose continuing compliance requirements on these loans. The amounts included as expenditures on the Schedule include only new loans made from any current year's Oil Overcharge Settlement funds received by the State.

(7) Airport Improvement Program

The Nebraska Department of Aeronautics acts as an agent for the various Airport Improvement Program grants funded through the Federal Aviation Administration. The grants represent agreements between the Federal Aviation Administration and various cities, counties, and airport authorities. The Department of Aeronautics' primary responsibilities are processing of requests for reimbursement and reviewing the requests to determine allowability of program expenditures. The amount of reimbursements passed through to the respective cities, counties, or airport authorities are included as expenditures on the Schedule.



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

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

We have audited the basic financial statements of the State of Nebraska as of and for the year ended June 30, 2004, and have issued our report thereon dated December 22, 2004, which refers to the implementation of a new accounting standard. We did not audit the financial statements of the aggregate discretely presented component units, the Nebraska State Lottery enterprise fund or the State and County Employees' Retirement Plans. The Nebraska State Lottery enterprise fund and the State and County Employees' Retirement Plans represent 12.3% and 14.9% of the assets and revenues, respectively, of the aggregate remaining fund information. The Nebraska State Lottery enterprise fund represents 4.4% and 37.9% of the assets and revenues, respectively, of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information and their effects on the business-type activities, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Nebraska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item #04-65-01.

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

assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition item #04-65-01 identified above to be a material weakness.

We also noted other matters involving internal control over financial reporting that we have reported to the management of the respective State agencies in separate letters dated December 22, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Nebraska's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Lincoln, Nebraska
December 22, 2004



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**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the State of Nebraska with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The State of Nebraska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Nebraska's management. Our responsibility is to express an opinion on the State of Nebraska's compliance based on our audit.

The basic financial statements of the State of Nebraska include the operations of component units, which received federal awards during the year ended June 30, 2004. Our audit, described below, did not include the operations of the component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska's compliance with those requirements.

Scope Limitations

We were unable to obtain sufficient documentation regarding the compliance of the State of Nebraska with the major federal programs listed below regarding the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State of Nebraska’s compliance with those requirements by other auditing procedures.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Allowable Costs/Cost Principles	04-23-01
66.458	Capitalization Grants for Clean Water	Reporting	04-84-01
93.777 and 93.778	Medicaid Cluster	Special Tests and Provisions	04-26-04
93.563	Child Support Enforcement	Subrecipient Monitoring	04-26-02
93.994	Maternal and Child Health Services Block Grant	Subrecipient Monitoring	04-26-02
93.994	Maternal and Child Health Services Block Grant	Earmarking	04-26-08

Qualifications

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

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
10.550	Food Donation	Subrecipient Monitoring	04-26-06
93.563	Child Support Enforcement	Special Tests and Provisions	04-26-03
93.575 and 93.596	Child Care Cluster	Allowable Costs/Cost Principles	04-26-05
97.004	State Domestic Preparedness Equipment Support Program	Allowable Costs/Cost Principles	04-31-01

Adverse

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

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
66.458	Capitalization Grants for Clean Water	Subrecipient monitoring	04-84-02
66.458	Capitalization Grants for Clean Water	Reporting	04-84-03
66.468	Capitalization Grants for Drinking Water	Subrecipient monitoring	04-84-02
66.468	Capitalization Grants for Drinking Water	Reporting	04-84-03
66.468	Capitalization Grants for Drinking Water	Reporting	04-84-04
93.994	Maternal and Child Health Services Block Grant	Reporting	04-26-09
97.042	Emergency Management Performance Grants	Allowable Costs/Cost Principles	04-31-02
97.042	Emergency Management Performance Grants	Period of Availability	04-31-03
97.042	Emergency Management Performance Grants	Subrecipient Monitoring	04-31-04

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State of Nebraska did not comply, in all material respects, with the requirements applicable to the programs identified in the preceding paragraph. Also, in our opinion, except for noncompliance described in the second preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Nebraska's compliance with the requirements described in the third preceding paragraph, the State of Nebraska complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Nebraska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Nebraska's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #04-23-01, #04-26-01, #04-26-02, #04-26-03, #04-26-04, #04-26-05, #04-26-06, #04-26-07, #04-26-08, #04-26-09, #04-31-01, #04-31-02, #04-31-03, #04-31-04, #04-84-01, #04-84-02, #04-84-03, and #04-84-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items #04-26-01, #04-26-08, #04-31-01, #04-31-02, #04-31-03, #04-31-04, #04-84-01, #04-84-02, #04-84-03, and #04-84-04 to be material weaknesses.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, the Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Lincoln, Nebraska
December 22, 2004

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

I. Summary of Auditors' Results

- a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unqualified.
- b) A reportable condition in internal control was disclosed by the audit of the financial statements and is included in the schedule of findings and questioned costs in Part II as item #04-65-01, which is also considered a material weakness.
- c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.
- d) Reportable conditions in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as items #04-23-01, #04-26-01, #04-26-02, #04-26-03, #04-26-04, #04-26-05, #04-26-06, #04-26-07, #04-26-08, #04-26-09, #04-31-01, #04-31-02, #04-31-03, #04-31-04, #04-84-01, #04-84-02, #04-84-03, and #04-84-04.

We consider items #04-26-01, #04-26-08, #04-31-01, #04-31-02, #04-31-03, #04-31-04, #04-84-01, #04-84-02, #04-84-03, and #04-84-04 to be material weaknesses in internal control over the major programs.

- e) Type of report issued on compliance for major programs (restated): Unqualified, qualified, and Adverse.
- f) The audit disclosed audit findings, which are required to be reported in accordance with section .510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

g) The following table shows programs that are considered to be major programs (restated):

CFDA #10.550	Food Donation
CFDA #'s 10.551 and 10.561	Food Stamp Cluster
CFDA #'s 17.258, 17.259, and 17.260	Workforce Investment Act Cluster
CFDA #20.205	Highway Planning and Construction Cluster
CFDA #21.000	State Fiscal Relief Block Grant
CFDA #66.458	Capitalization Grants for Clean Water State Revolving Funds
CFDA #66.468	Capitalization Grants for Drinking Water State Revolving Funds
CFDA #84.010	Title I Grants to Local Educational Agencies
CFDA #84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
CFDA #84.367	Improving Teacher Quality State Grants
CFDA #93.283	Center for Disease Control and Prevention—Investigations and Technical Assistance
CFDA #93.558	Temporary Assistance for Needy Families
CFDA #93.563	Child Support Enforcement
CFDA #93.568	Low-Income Home Energy Assistance
CFDA #'s 93.575 and 93.596	Child Care Cluster
CFDA #93.658	Foster Care—Title IV-E
CFDA #93.667	Social Services Block Grant
CFDA #93.767	State Children's Insurance Program (CHIP)
CFDA #'s 93.777 and 93.778	Medicaid Cluster
CFDA #93.994	Maternal and Child Health Services Block Grant
CFDA #97.004	State Domestic Preparedness Equipment Support Program
CFDA #97.042	Emergency Management Performance Grants

h) Dollar threshold used to distinguish between Type A and Type B programs (restated): \$6,779,405.

i) The State did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards:

DEPARTMENT OF ADMINISTRATIVE SERVICES (DAS)

Finding #04-65-01

Criteria: The preparation of reconciliations between the actual bank statements and the accounting records (NIS) and the related disposition of reconciling items is an essential element of control in safeguarding cash and providing accurate interim and annual financial information.

Condition: The State has developed a new reconciliation process; however, the following areas need to be addressed:

- The variance continues to shift from month to month, which still indicates unknown reconciling items continue to exist. As of June 30, 2004, the unreconciled variance between the bank

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

balances and the State's accounting records was \$3,883,239, which indicates that the cash balance per the State's accounting records is overstated.

- No adjustment has been made for the portion of the variance that is due to prior errors.
- No adjustments have been made for the carryover reconciling items related to the Investment Council.
- Although a reconciliation is being performed, some reconciling items are not posted to the general ledger at year-end.
- The reconciliations are not being performed or reviewed in a timely manner.
- Monitoring and developing procedures to capture reconciling activity from new systems. The SDU also has an unreconciled amount in addition to the above of approximately \$1.3 million.
- Developing an automated reconciliation process.

Questioned Costs: None.

Context: Two complete reconciliations under the new methodology were performed during the year and cash is overstated by the above amounts at June 30, 2004.

Cause: Complexity of reconciliation and number of transactions.

Effect: Interim cash reports produced by NIS and annual financial statements do not accurately reflect the State's cash balance, which may lead to errors in the managerial decision-making process.

Recommendation: We recommend the State continue to investigate the shift in the variance to determine the cause and establish policies and procedures related to posting adjustments in a timely manner to ensure cash is accurately reported. We also recommend that the reconciliations be prepared in a timely manner and someone other than the preparer review them shortly after completion. Finally, we recommend the State investigate and begin the implementation of a systematic online reconciliation process by utilizing the capabilities of the accounting system. The implementation of an online reconciliation process would further require that the treasurer's currently manual ledger be maintained online. Last, we recommend the State begin working on reconciliations as soon as possible rather than wait until year-end.

Management Response: State accounting has allocated increased resources to completing a consistent reconciliation process. Variances have been identified and recommendations of new procedures recommended to the State Treasurer. Research is ongoing and journal entries are being formulated to eliminate the prior variances. Reconciliations for July – September 2004 and January 2005 are in progress and close to completion. Reconciliations for the last six months of fiscal year 2005 should be in a timely manner. The State Disbursement Unit has engaged an outside accounting firm to assist with reconciling their activity and stabilizing procedures for ongoing reconciliations.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Corrective Action Plan: State accounting will be creating a journal entry prior to fiscal year end June 30, 2005, to correct known variances based on increased reconciliation work completed for fiscal year 2004 and 2005. Bank reconciliations will be completed monthly for the last six months of fiscal year 2005 and appropriate review and correcting entries completed. The Department of Administrative Services is reviewing the current Nebraska Information System bank reconciliation module to determine how implementation of the module can assist in a more automated reconciliation process.

Contact: Paul Carlson

Anticipated Completion Date: The correcting journal entry should be completed by June 30, 2005. The bank reconciliations should be completed within 60 days of the end each month. Automation of the bank reconciliation process within current resources has begun and research into the purchase of the NIS bank reconciliation module is in progress.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF LABOR

Finding #04-23-01

Program: CFDA #'s 17.258, 17.259, and 17.260—Workforce Investment Act—Allowable Costs/Cost Principles

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per OMB Circular A-87, Attachment A, “Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term ‘indirect costs,’ applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.” Further, to be allowable under Federal awards, costs must be adequately documented.

Condition: The Department could not provide detailed documentation to support indirect cost allocations.

Questioned Costs: \$458,965

Context: Indirect costs are allocated based on the time distribution for all project codes. Indirect cost charges totaled \$458,965 for fiscal year 2004.

Cause: The Department is not able to perform a reconciliation of how indirect costs are allocated to each of the project codes. The allocation is performed by the Financial Accounting & Reporting System (FARS), a federally approved cost accounting system. The indirect costs cannot be traced back to NIS after they have been allocated to each of the projects. Expenditures are paid through NIS.

Effect: Inability to test compliance and the lack of the ability to perform a reconciliation increases the risk of allocating costs in error.

Recommendation: We recommend the Department establish policies and procedures to support indirect cost allocations.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Management Response:

Corrective Action Plan: The process of allocating expenses in FARS has remained the same since 1999. All allocated expenses are based upon a USDOL approval of time charging process to each direct fund source, which changes each month. While we can produce a list of allocated costs to each fund source, it would be extremely time consuming to break out each allocation. The expenses are lumped together by project/function code each month and the grand total amount (by project/function) is allocated to the direct fund sources. The list of allocated costs to each fund source was provided to the auditors. The Statewide accounting/hr system was implemented in 2003. We are in process of setting up each allocation in NIS. Based on the allocation reports reviewed in 2004, NIS will have the capability to list out each allocation basis and the to/from of those allocations. This should provide the information that is being requested by the auditors and avoid findings in the future.

Contact: Becky Tejral

Anticipated Completion Date: December 31, 2005

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #04-26-01

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

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

Criteria: According to OMB Circular A-133, an Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. The Agency performs yearly reviews of case files to ensure only eligible recipients continue to receive IV-E funding.

Condition: The yearly review of case files to review eligibility is not being completed in a timely manner.

Questioned Costs: None.

Context: Four of the 50 cases selected for testing were not reviewed in the current year. These reviews were completed five months to one year late.

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

Effect: Caseworkers are not in compliance with the Agency's internal control policies. This increases the risk that ineligible recipients will receive IV-E funding.

Recommendations: We recommend the Agency enforce the review policies and procedures in place by monitoring that action is taken on alerts received by caseworkers.

Management Response:

Corrective Action Plan: The Agency continues to provide ongoing training on IV-E policy, holds statewide meetings with eligibility staff regarding any audit findings, and operates quality assurance statewide.

Contact: Margaret Bitz and Ruth Grosse

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

Finding #04-26-02

Program: CFDA #'s 93.563 and 93.994—Child Support Enforcement and Maternal and Child Health Services Block Grant to States—Subrecipient Monitoring

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

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

Criteria: A pass-through entity is responsible for:

- *Award Identification*—At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring*—Monitoring the subrecipient’s use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits*—Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact*—Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition: The Agency has centralized monitoring procedures related to subrecipient audits. The agency received all the necessary single audit reports, but did not properly document the Agency’s review of the single audit reports.

Questioned Costs: None.

Context: The Agency has developed centralized procedures related to obtaining and reviewing single audit reports from subrecipients. However, they had not documented their review of the single audit reports.

Cause: Change in and lack of personnel resources.

Effect: The requirement could not be tested as the Agency is unable to provide documentation of their review of subrecipients’ single audit reports.

Recommendation: We recommend the Agency continue to implement its centralized monitoring procedures, as well as written policies and procedures, to ensure that all required single audit reports are received and reviewed and appropriate action is taken on any findings noted.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Management Response:

Corrective Action Plan: We agree with the conditions and the recommendation. We have a basic outline of our process. We will build on that outline to develop methods to ensure that the Grants and Cost Management Unit, acting as the Agency's central clearing house, obtains, reviews, and completes needed follow-up on all subgrantee audits. Documentation will be maintained to identify the audit clearing house activities.

Contact: Larry Morrison

Anticipated Completion Date: July 1, 2005

Finding #04-26-03

Program: CFDA #93.563—Child Support Enforcement—Special Tests and Provisions (Paternity)

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

Criteria: The State IV-D Agency must attempt to establish paternity and a support obligation for children born out of wedlock. The State IV-D Agency must establish a support obligation when paternity is not an issue. These services must be provided for any children in cases referred to the IV-D Agency or to individuals applying for services under 45 CFR section 302.33 for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5). These services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and 303.4(d).

Establishment of Paternity and Support Order—The State must have and use procedures required in this paragraph in at least 75% of the cases reviewed (45 CFR Section 308.2 (b)).

Condition: Caseworkers are not consistently taking steps to follow up on all leads and services were not processed within the 90 days in some cases. For the cases reviewed by the Self-Assessment Division, only 73% indicated the State used the above procedures.

Questioned Costs: None.

Context: Of the 80 cases tested by the Self-Assessment Division, 22 were not in compliance. Ten errors were due to service of process was not initiated within 90 days. Twelve errors were due to that not all leads were exhausted by the Title IV-D Agency.

Cause: The State has not taken corrective action to ensure the above procedures are performed.

Effect: Noncompliance with the special test requirement and the 75% minimum requirement.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Recommendations: We recommend the Agency review the cause of the errors and implement procedures to help eliminate them in the future.

Management Response:

Corrective Action Plan: The CHARTS tickler system has helped reduce errors for verified addresses. Workers are not able to delete the tickler unless appropriate action is taken.

One issue that has impacted CSE staff is the automated referral process from IV-A staff. There have been issues of accuracy and consistency by the referring parties. In some parts of the state, there has been less supporting documentation accompanying the automated referrals than when done manually. When CSE must obtain the information, there is less time to do other things.

The IV-D Agency has implemented a Federal Compliance Review Team to do in-depth case processing reviews.

The IV-D Agency has also begun improving the management reports. Issues affecting incentives are being addressed first. For example, the annual 157 report is broken down by local office in order to determine where errors are occurring. The 157 report gives totals and detail for each line item for each office. The monthly 157 report is also being broken down by local office. Currently, the monthly 157 change is implemented for one office, as a pilot. The goal is to implement it statewide in October for the September 2004 statistics.

Contact: Deb Steidley

Anticipated Completion Date: The local office 157 report is stilling being developed and tested along with other management reports. Expected completion date is October 2005. Ongoing training is provided for paternity, use of CHARTS and related time frames.

Finding #04-26-04

Program: CFDA #'s 93.777 and 93.778—Medicaid Cluster—Special Tests and Provisions

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

Criteria: State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS onsite reviews (45 CFR section 95.621).

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Condition: Although a review was performed in May 2004, no formal documentation of the review was maintained by the Agency.

Questioned Costs: None.

Context: No formal documentation was maintained indicating an evaluation of physical and data security operating procedures and personnel practices. The Agency is working to develop a standardized documentation template for their review procedures. It is scheduled to be in use for the 2004 – 2005 State fiscal year reviews.

Cause: The Agency has not completed its procedures to ensure proper documentation of the evaluation.

Effect: Inability to test compliance with the requirement.

Recommendation: We encourage the Agency to continue working on formally documenting the outcomes of the evaluations of physical and data security operating procedures and personnel practices.

Management Response:

Corrective Action Plan: We agree that documentation of the periodic risk assessment can be improved; however, we maintain that adequate risk analysis procedures are in place. During 2003 – 2004, the Agency took steps to improve documentation of security procedures and to improve coordination of security activities through designation of an HHS security officer. Further documentation of the MMIS application risk assessment procedures will be implemented for the fiscal year 2005 audit period.

Contact: Pat Darnell-Cass

Anticipated Completion Date: June 30, 2005

Finding #04-26-05

Program: CFDA #'s 93.575 and 93.596—Child Care Cluster—Allowable Costs/Cost Principles

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

Criteria: According to OMB Circular A-133, an agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. According to OMB Circular A-87, costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.

Condition: The Agency requires billing documents to be submitted by providers summarizing total units of care and claim amounts. The Agency considers this the source document for all child care claims. Before being entered into NFOCUS for payment processing, these billing documents are

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

compared to attendance sheets and the provider agreement by Agency personnel to ensure the provider is billed using allowable units and rates. This review is evidenced by the reviewer's signature and date on the billing document. Four of fifty aid disbursements tested included either an incorrect rate or number of units in the billing document, resulting in overpayments of claims.

Questioned Costs: Out of the four erroneous disbursements discussed above, the known amount of overcharge is \$31.50. Based on this information, an extrapolated error of \$123,315 was calculated (0.5% error rate times total expenditures of \$23,136,374).

Cause: Review process did not identify errors.

Effect: The Agency disbursed federal funds for unallowable costs.

Recommendation: We recommend the Agency analyze its review procedures to ensure such errors are identified and corrected in the future.

Management Response:

Corrective Action Plan: We followed up on the five erroneous disbursements discussed to resolve each case with local staff. Over the next few months, we will analyze and review procedures in place to prevent errors from occurring, and when identified, take corrective action.

Contact: Betty Medinger

Anticipated Completion Date: September 1, 2005

Finding #04-26-06

Program: CFDA #10.550—Food Donation—Subrecipient Monitoring

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: A pass-through entity is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with regulations "CFR 3016." Each distributing agency shall establish a review system in order to assess the effectiveness of its food distribution program in meeting the requirements of these regulations. Responsibilities of distributing agencies—each distributing agency shall establish review procedures encompassing eligibility, food ordering procedures, storage practices, inventory controls, reporting and record keeping requirements, and compliance with nondiscrimination provisions. For nutrition programs for the elderly that reviews be completed at least once every four years, with not fewer than 25% of these programs being reviewed each year (7 CFR 250.19). The State adopted this monitoring policy for all types of nutrition programs that receive aid under this program.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Condition: Reviews are not completed at least once every four years and 25% of the programs are not reviewed each year.

Questioned Costs: None.

Context: Of the 30 subrecipients tested, 3 did not have a review within the last four years. Of 525 total subrecipients, 38 have not been reviewed within the last four years.

Cause: A lack of personnel to conduct reviews.

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

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

Management Response:

Corrective Action Plan: Our Agency is presently working to correct the fact that the reviews are not completed in a timely manner by concentrating on those agencies that were not up to date.

We will also be reviewing our policy that is in place as to the frequency of reviews and other factors with our agency that effect the ability to complete the reviews in a timely manner. Reviews will be done on an as needed basis as deemed necessary by the food distribution staff.

Contact: Julia West

Anticipated Completion Date: June 1, 2005

Finding #04-26-07

Program: CFDA #93.558—Temporary Assistance for Needy Families (TANF)—Allowable Costs/Cost Principles and Eligibility

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

Criteria: According to OMB Circular A-133, a department has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. Caseworkers are required to reevaluate eligibility on an annual basis, which is generally documented through the completion of an application.

Condition: In 1 of the 40 cases selected, eligibility had not been reevaluated on an annual basis.

Questioned Costs: None.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Context: Eligibility had not been reevaluated since 2001.

Cause: The caseworker did not take action in response to receiving an alert that eligibility needed to be reevaluated.

Effect: Caseworkers are not in compliance with the Agency's policies. This increases the risk that ineligible recipients will receive TANF funding or that TANF funding will be used for unallowable costs.

Recommendation: We recommend the Agency establish monitoring procedures to ensure caseworkers take appropriate action upon receiving an alert that eligibility needs to be reevaluated.

Management Response:

Corrective Action Plan: Supervisors are responsible for the review of Social Service workers in their supervisory span. The supervisor review should have detected the fact that the review had not been completed and then taken appropriate action. We will remind supervisors that their responsibilities include ensuring that eligibility reviews are completed in a timely manner.

Also, in excess of 50% of the Aid to Dependent Cases also are eligible for the Food Stamp Program. Because of the threat of federal fiscal sanctions, a high number of Food Stamp cases are reviewed to ensure that appropriate actions are taken, including case reviews being completed in a timely manner. Although these reviews do not look specifically at the Aid to Dependent Children Program (TANF), if a Food Stamp review is not completed the probability is great that an ADC review is also not completed and the corrective action will be the same.

This finding deals with 1 case out of 40, which is an extremely small sample.

Contact: George Kahlandt

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

Finding #04-26-08

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

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

Criteria: (1) Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment of amounts for preventive and primary case services for children (42 USC 705(a)(3)(A)). (2) Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment of amounts for services for children with special health care needs (42 USC 705 (a)(3)(B)). (3) A State may not use more than 10% of allotted funds for administrative expenses (42 USC 704(d)).

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Condition: Inability to determine if the Agency met the requirements.

Questioned Costs: None.

Context: The Agency does not track expenditures by allotment/grant year; therefore, the requirements could not be tested.

Cause: The Agency tracks expenditures based on the Federal fiscal year and not by the allotment/grant period. The Agency tracks expenditures based on the Federal fiscal year because they are required to report the expenditures in this format. As expenditures from one federal fiscal year could include funds from up to three allotments/grants, the program is not able to identify what type of expenditures were specifically spent for each allotment. Therefore, we were unable to determine if the Agency was in compliance.

Effect: Inability to determine if the Agency is in compliance with the earmarking requirements.

Recommendations: We encourage the Agency to continue to work with the federal agency to resolve this finding.

Management Response:

Corrective Action Plan: State staff will continue to follow up on the submissions made to federal agency officials and will, to the extent necessary, enlist the assistance of the Nebraska congressional delegation to monitor the progress made by the federal agencies in clarifying the applicable audit guidance for future years. As of March 3, 2005, the Office of Management and Budget (OMB) A-133 2005 Compliance Supplement has not been released. The Compliance Supplement is released annually in March or April. If the recommendations submitted most recently in October 2004 are not incorporated in the 2005 Compliance Supplement, state staff will enlist the assistance of the Nebraska congressional delegation to monitor progress made by the federal agencies in clarifying the applicable audit guidance for future years.

Contact: Rayma Delaney

Anticipated Completion Date: State staff expect to complete this corrective action plan by June 30, 2005.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Finding #04-26-09

Program: CFDA #93.994—Maternal and Child Health Services Block Grant—Reporting

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

Criteria: The State is required to submit an SF-269, *Financial Status Report*, annually for each federal allotment.

Condition: Certain amounts on the SF-269, *Financial Status Report*, were not accurately prepared and the report was not submitted in a timely manner.

Questioned Costs: None.

Context: The Agency submitted an SF-269, *Financial Status Report*, for the 2003 Federal grant allotment for the period from October 1, 2002 – September 30, 2003; however, they did not submit the report within the time requirements and total federal share, total federal funds authorized for the period, and total unliquidated obligations were misreported by \$8,881.

Cause: Review procedures did not identify reporting errors and did not ensure reports were submitted in a timely manner.

Effect: The Agency inaccurately submitted a required report and did not file it in a timely manner. Further, there is an increased risk future reports will not be submitted.

Recommendations: We recommend the Agency analyze its review and reconciliation procedures to ensure they are sufficient to identify reporting errors and to ensure reports are submitted in a timely manner.

Management Response:

Corrective Action Plan: We agree with the finding. A revised report to correct the authorized amount, federal amount, and unliquidated obligations has been prepared and submitted.

Contact: Larry Morrison

Anticipated Completion Date: Completed as of March 2005.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

DEPARTMENT OF MILITARY

Finding #04-31-01

Program: CFDA #97.004—State Domestic Preparedness Equipment Support Program—Allowable Costs/Cost Principles

Federal Grantor Agency: Department of Homeland Security

Criteria: OMB Circular A-87 indicates that costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, such as more than one federal award, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that, at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between the budgeted and actual costs are less than 10%.

Condition: Employees who worked only on one federal program were not required to complete semiannual certifications that the employees worked solely on that program for the period covered by the certification. Time worked by employees on multiple federal programs was not based on an after-the-fact distribution of actual activity of each employee. Each employees' time was budgeted for each federal program and charged to the federal programs according to the budget.

Questioned Costs: \$309,448—Total payroll expense charged to the federal program.

Context: There are 30 employees of the Nebraska Emergency Management Agency (NEMA). This is the State program that administers the federal program. Approximately 10 of the employees were paid partially or fully from the federal program. The total payroll charged to the federal fund was \$309,448.

Cause: The Agency was unaware of this requirement.

Effect: Noncompliance with the allowable costs compliance requirements.

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Employees who work on only one federal program should complete a semiannual certification stating such. Employees who work on

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

more than one federal program should document their total activities using after-the-fact personnel activity reports.

Management Response:

Corrective Action Plan: Quarterly and biannual reports are submitted and are reviewed with the federal grant manager of the EMPG and HLS grants. A-87 compliance regarding payroll costs has not been identified by the federal grant manager as a concern. Currently, NEMA is in the process of amending employee timesheets to indicate grant funding availability that will track programmatic duties to specific grants and will be certified by individual employees. The Military Department and NEMA are vigorously pursuing additional means for providing a semiannual payroll certification report, utilizing the payroll portion of the Nebraska Information System (NIS).

Contact: Shawn Fitzgerald

Anticipated Completion Date: 2005

Finding #04-31-02

Program: CFDA #97.042—Emergency Management Performance Grants—Allowable Costs/Cost Principles

Federal Grantor Agency: Department of Homeland Security

Criteria: OMB Circular A-87 indicates that costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, such as more than one federal award, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that, at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between the budgeted and actual costs are less than 10%.

Condition: Employees who worked only on one federal program were not required to complete semiannual certifications that the employees worked solely on that program for the period covered by the certification. Time worked by employees on multiple federal programs was not based on an after-the-fact

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

distribution of actual activity of each employee. Each employees' time was budgeted for each federal program and charged to the federal programs according to the budget.

Questioned Costs: \$512,695—Total payroll expense charged to the federal program.

Context: There are 30 employees of the Nebraska Emergency Management Agency (NEMA). This is the State program that administers the federal program. Approximately 21 of the employees were paid partially or fully from the federal program. The total payroll charged to the federal fund was \$512,695.

Cause: The Agency was unaware of this requirement.

Effect: Noncompliance with the allowable costs compliance requirements.

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Employees who work on only one federal program should complete a semiannual certification stating such. Employees who work on more than one federal program should document their total activities using after-the-fact personnel activity reports.

Management Response:

Corrective Action Plan: This is a moot issue—the grants in question allow for their usage to support a comprehensive, Emergency Management, Civil Defense program—allowing a wide range of program activities. In 2005, all grant programs come under the umbrella of one grant application.

The Military Department and NEMA are vigorously pursuing additional means for providing payroll certification be added to the monthly time/payroll sheet.

Contact: Shawn Fitzgerald

Anticipated Completion Date: 2005

Finding #04-31-03

Program: CFDA #97.042—Emergency Management Performance Grants—Period of Availability

Federal Grantor Agency: Department of Homeland Security

Criteria: The program requirements for this grant define the period of performance as the 12-month period from October 1 through September 30.

Condition: The October 2003 payroll was included in the new fiscal year 2004 grant and the time worked was in September 2003, the period of performance. Additionally, one travel expense claim incurred in July 2003 was paid from the 2004 grant award. The amount was \$54.72.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Questioned Costs: \$42,044—amount charged to the grant in October 2003 (payroll).

Context: There were 30 total employees at NEMA. Not all of them were fully funded by the federal grant.

Cause: The Agency indicated that only 12 months of payrolls are included in the period of performance and this is how it has been since the grant was received.

Effect: Noncompliance with the grant requirements.

Recommendation: We recommend the Agency work with the federal grantor agency to determine whether the reporting of payroll needs to be adjusted to comply with the period of performance specified in the grant. We also recommend the Agency ensure procedures for determining expenses are charged to the correct grant are adequate.

Management Response:

Corrective Action Plan: The 2005 grant program becomes a 30-month performance grant with the grant being renewed on an annual basis. This issue will become moot. The issue has been discussed with the grantor agency and has not been identified as a problem. The program has been transferred to DHS for FEMA and this accounts for an extended performance period to allow extended time frames to alleviate the problems noted.

Contact: Shawn Fitzgerald

Anticipated Completion Date: 2005

Finding #04-31-04

Program: CFDA #97.042—Emergency Management Performance Grants—Subrecipient Monitoring

Federal Grantor Agency: Department of Homeland Security

Criteria: A pass-through entity is responsible for:

- *Award Identification*—At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring*—Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

- *Subrecipient Audits*—Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact*—Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition: We noted the Agency allowed subrecipients to submit a certification of expenses paid signed by the county clerk in lieu of submitting receipts and other supporting documentation. Only five on-site visits were performed during the fiscal year ending June 30, 2004 of the 28 local agencies electing not to submit support (Cass, Dakota, Knox, Madison, and Platte). All local agencies were divided into six areas. Selection for visits was based on time available taking into consideration required travel time.

Questioned Costs: \$625,070

Context: There were 34 local agencies that received a total of \$958,669 in federal funds in fiscal year 2004. Six of these agencies submitted adequate support for all of their costs totaling \$198,482. The other 28 agencies submitted a certification of expenditures signed by the county clerk. On-site visits to 5 of the 28 local agencies sampled about 30% of their claims by looking at supporting detail for amounts paid and verifying local payment prior to claiming reimbursement. The total expenditures for those agencies was \$135,117. The remaining 23 local agencies received distributions in the amount of \$625,070.

Cause: The Agency believes that the certifications are adequate supporting documentation. Although they began on-site visits after the prior audit findings were discussed, they do not have the resources to perform on-site visits for all 28 local agencies between April 2004 and June 2004.

Effect: Increased risk of possible loss or misuse of federal funds.

Recommendation: We recommend the Agency require adequate supporting documentation be submitted by all local agencies with their reimbursement request. If this is not possible, the Agency should consider performing on-site visits during the grant year to all local agencies processed without adequate documentation or require local agencies to periodically submit the receipts for the expenses being reimbursed, based on risk.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Management Response:

Corrective Action Plan: We will require all supporting documentation to be submitted by subrecipients prior to reimbursement.

Contact: Shawn Fitzgerald

Anticipated Completion Date: 2005

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #04-84-01

Program: CFDA #66.458—Capitalization Grants for Clean Water State Revolving Fund—Reporting

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The Code of Federal Regulations requires annual submission of the SF-269, *Financial Status Report*, to the Environmental Protection Agency (40 CFR 30.52) within 90 calendar days after the end of the fiscal year.

Condition: The SF-269, *Financial Status Report*, for the 2002 and 2003 capitalization grants were not filed.

Questioned Costs: None.

Context: The annual report was not submitted to the federal agency.

Cause: No procedure was in place to ensure that the report was prepared and submitted.

Effect: The Agency did not submit the required reports.

Recommendation: We recommend the Agency design and implement controls to ensure reports are completed and filed with the federal agency in accordance with federal requirements.

Management Response:

Corrective Action Plan: The Agency adopted procedures during fiscal year 2004 in response to that years' audit. All SF-269 reports were completed by December 31, 2004.

Contact: Bart Moore

Anticipated Completion Date: December 31, 2004

Finding #04-84-02

Program: CFDA #'s 66.458 and #66.468—Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds—Subrecipient Monitoring

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: A pass-through entity is responsible for:

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

- *Award Identification*—At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring*—Monitoring the subrecipient’s use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits*—Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact*—Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition: The Agency has not performed the following:

- Obtained all required A-133 reports from subrecipients
- Reviewed A-133 reports
- Followed-up on findings and related corrective action

Questioned Costs: None.

Context: The Agency has obtained A-133 single audit reports from subrecipients; however, they have not been reviewed since 2002 and do not have controls in place to ensure they have received all the reports. The Agency does perform on-site and desk reviews to monitor their subrecipients’ annual activity, but does not ensure proper follow-up is conducted on the subrecipients’ A-133 single audit reports. During fiscal year 2004, there were 28 recipients receiving \$11,023,948 for the Drinking Water program and 24 recipients receiving \$5,443,302 for the Clean Water program.

Cause: Due to the lack of personnel, the Agency has not been able to properly review single audit reports.

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

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Recommendation: We recommend the Agency continue to refine its centralized monitoring procedures and develop a monitoring tool, as well as written policies and procedures, to ensure that all required single audit reports are received and reviewed and appropriate action is taken on any findings noted within time requirements.

Management Response:

Corrective Action Plan: It should be noted that site visits are made to each loan recipient by program staff to make sure project activities are consistent with costs. A policy and procedure will be written by April 1, 2005. All single audit reports will be reviewed. A monthly report will be provided to the Fiscal Section Supervisor that will identify reports received and the status of review as well as status of follow up.

Contact: Bart Moore

Anticipated Completion Date: April 1, 2005

Finding #04-84-03

Program: CFDA #'s 66.458 and #66.468—Capitalization Grants for Clean Water State Revolving Fund and Capitalization Grants for Drinking Water State Revolving Funds—Reporting

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The U.S. Environmental Protection Agency Electronic Funds Transfer Payment Process Recipients' Manual requires semiannual submission of the SF-272, *Federal Cash Transactions Report*, to the Environmental Protection Agency 15 days after the periods ending June 30 and December 31.

Condition: The SF-272, *Federal Cash Transactions Report*, for the period from July 1, 2003 – December 31, 2003 was not prepared in a manner consistent with the manner in which the EPA requires the form to be prepared.

Questioned Costs: None.

Context: The Agency did not prepare the semiannual report submitted in accordance with EPA calculations and instructions.

Cause: The Agency believes the calculations used represent a better measure of the financial activity during the period.

Effect: The Agency did not submit required reports in accordance with EPA guidance.

Recommendation: We recommend the Agency ensure reports are completed and filed with the federal agency in accordance with federal requirements.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Management Response:

Corrective Action Plan: The report was prepared using State of Nebraska accounting system records. The required form does not contain information that allows for the accounting of cash due to increases and/or decreases in accounts payable and receivable. Therefore, those must be taken into account on a separate form. EPA requests this information be identified on the “Program Income” line. These funds are not program income and should not be reported as such. We will work with the EPA to resolve the issue.

Contact: Bart Moore

Anticipated Completion Date: May 1, 2005

Finding #04-84-04

Program: CFDA #66.468—Capitalization Grants for Drinking Water State Revolving Fund—Reporting

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The Code of Federal Regulations requires annual submission of the SF-269, *Financial Status Report*, to the Environmental Protection Agency (40 CFR 30.52) within 90 calendar days after the end of the fiscal year.

Condition: The SF-269, *Financial Status Report*, for the 2002 capitalization grant was submitted with “Total Outlays” and “Federal Share of Outlays” overstated by \$17,200.

Questioned Costs: None.

Context: Based on a review of the accounting records used to prepare the SF-269, *Financial Status Report*, for the 2002 capitalization grant, “total outlays” and “federal share of outlays” were overstated by \$17,200.

Cause: The report was not properly reconciled to the accounting system records used to prepare the report.

Effect: The SF-269, *Financial Status Report*, for the 2002 capitalization grant was submitted with “total outlays” and “federal share of outlays” overstated by \$17,200.

Recommendation: We recommend the Agency design and implement controls to ensure reports are reconciled to the accounting system.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004
(restated)

Management Response:

Corrective Action Plan: The Agency has implemented procedures to monitor and review reports prepared and will continue performing procedures to ensure reports are accurately prepared. The report identified had previously been corrected.

Contact: Bart Moore

Anticipated Completion Date: December 31, 2004