

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF AERONAUTICS**

JULY 1, 2006 THROUGH JUNE 30, 2007

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Issued on March 28, 2008

NEBRASKA DEPARTMENT OF AERONAUTICS

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NEBRASKA DEPARTMENT OF AERONAUTICS

BACKGROUND

The Nebraska Department of Aeronautics (Department) is composed of a Director, staff, and the Nebraska Aeronautics Commission (Commission). The Department is responsible for the administration, regulation, promotion, and development of aviation within the State. The Department distributes funds from the aviation fuel tax, in conjunction with Federal funds, for the support and maintenance of public airports. The Department also administers State-owned airfields at Fairmont, Harvard, and Scribner and operates three State-owned aircraft dedicated to providing transportation for State agencies.

The Commission was originally established in 1945. The Commission's five members are appointed by the Governor, and each member serves for five years. One member is appointed or reappointed each year in March. The members receive no salary, but are reimbursed their actual expenses.

The Commission's primary functions are:

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

The Director is appointed by the Governor, subject to confirmation by the Legislature. The Director's primary duties are:

1. Serve as administrative officer of the Department.
2. Administer and enforce the laws and regulations relating to aeronautics.
3. Serve as secretary for the Commission.
4. Employ Department staff pursuant to appropriations approved by law.
5. Manage the offices of the Department and collect and report aeronautics information to the Commission and public.
6. Execute all contracts for the Department.

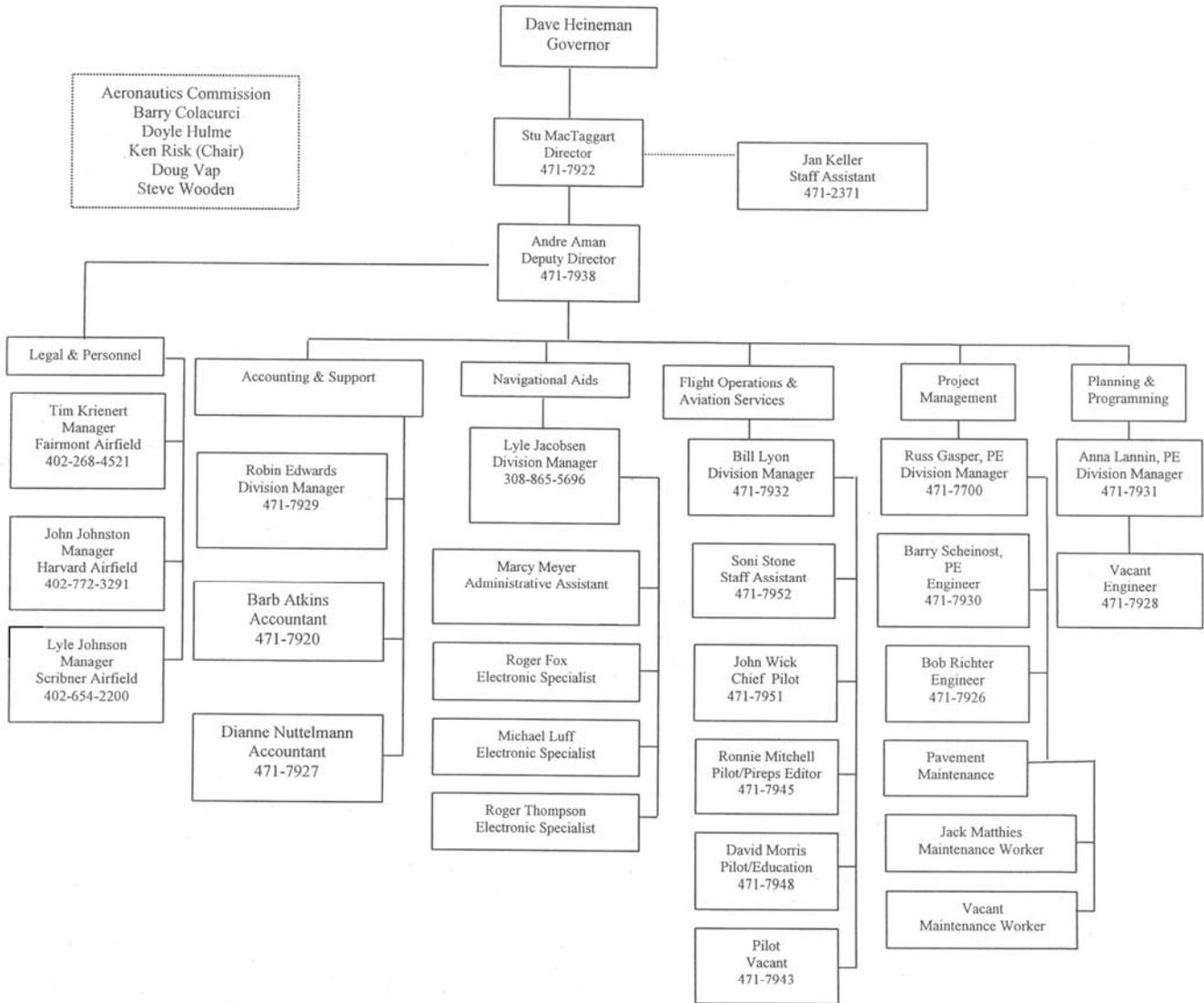
To accomplish its responsibilities, the Department is organized into six areas; Accounting & Support, Navigational Aids, Flight Operations & Aviation Services, Project Management, Legal & Personnel, and Planning & Programming.

MISSION STATEMENT

To facilitate the advancement of aviation in Nebraska.

NEBRASKA DEPARTMENT OF AERONAUTICS

ORGANIZATIONAL CHART



www.aero.state.ne.us

All Phone Numbers area code 402 unless otherwise indicated

Main Phone 471-2371

Conference Room Phone 471-7916

NEBRASKA DEPARTMENT OF AERONAUTICS

EXIT CONFERENCE

An exit conference was held February 29, 2008, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Aeronautics were:

NAME	TITLE
Stuart MacTaggart	Director
Robin Edwards	Accounting & Support, Division Manager
Andre Aman	Deputy Director

NEBRASKA DEPARTMENT OF AERONAUTICS

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Aeronautics, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Department Fees:** The fees billed by the Department for the use of the State's airplanes, administrative costs for Federal grants, and crack and joint repair work were not adequately documented, appropriate, reasonable, recently reviewed, or properly applied.
2. **Internal Control Over Receipts:** One individual opened the mail and did not make an initial record of the monies received. The monies received were then given to a second individual to receipt. The second individual was also responsible for the processing of invoices, applying cash received to invoices, and reviewing the open accounts receivable aging report.
3. **Timesheets:** Two of the five employees tested did not have timesheets on file that were approved by their supervisor.

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

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

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA DEPARTMENT OF AERONAUTICS

COMMENTS AND RECOMMENDATIONS

1. Department Fees

During our review of the Department's revenues, we noted the Department was billing other State agencies for the use of the State airplanes, billing Nebraska airports for administrative costs for Federal grants, and billing the Nebraska Department of Roads for crack and joint repair work done on State park and recreational area roads.

Neb. Rev. Stat. Section 3-106 R.R.S. 1997 states, "The department may purchase aircraft for the use of the department. Such aircraft shall be subject at all times to the written orders of the Governor for use and service in any branch of the state government with the expense thereof to be paid by the department."

An approval letter dated January 21, 2003, from the Federal Aviation Administration (FAA) to the Department for the overhead rates applied for administrative costs charged to airports for work performed on Federal grants states, "The overhead analysis should be updated annually and retained with the related documentation for the NDA's annual single audit." The letter also approved the Department to use an overhead rate of 179 percent.

Good internal controls require fees charged be reviewed to ensure the amounts charged are documented, appropriate, and reasonable. Sound accounting practices require fee rates be reviewed to ensure expenses are adequately covered and the rates charged agree to the approved fee schedules.

During our review of the Department's billing process, we noted the following:

- The calculation for the pilot rate fee of \$42 per hour included a formula error for additional pilot time that resulted in a \$1 per pilot hour under-billing.
- The benefits calculation for the pilot rate fee had not been reviewed recently and may not have been reasonable.
- Indirect costs related to the operation of the State's airplanes, such as management and accounting costs, equipment, building rental, and office costs were not included in the calculation of the pilot rate fee.
- The overhead analysis used to calculate administrative costs charged for airport projects had not been reviewed or updated since 2003.
- The administrative rate applied to airport projects of 150 percent was less than the FAA's approved rate of 179 percent. As a result, the four billings tested were under-billed by \$229.

NEBRASKA DEPARTMENT OF AERONAUTICS

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Department Fees (Concluded)

- The hourly rate for crack and joint repair projects was under-billed by \$1.17 per hour from the approved fee schedule. As a result, the labor charged on the project tested was under-billed by \$148.
- The equipment rates charged for crack and joint repair projects did not agree to the approved fee schedule for three of four equipment charges on the one project tested. As a result, the equipment charged on the project tested was over-billed by \$187.

Without the proper review of the determination of fees or the correct application of approved rates there is an increased risk of inadequate coverage of related expenses.

We recommend the Department review the fee calculations annually to ensure the fee amounts charged are appropriate and adequately cover the necessary related direct and indirect costs. We also recommend the Department review invoices to ensure the rates billed are in agreement with the approved fee schedule.

Department's Response: With regard to the first audit point, Calculation of Department Fees and Overhead with regard to piloting, the Agency has reviewed these items and has:

- 1) recalculated and will correctly charge pilot time;*
- 2) correctly calculated and appropriately charged pilot benefits; and*
- 3) plans to review overhead as pertains to plane use.*

With regard to the first audit point, Calculation of Department Administrative Time on airport projects:

- 1) a new analysis of overhead costs was completed on March 14, 2008 showing an overhead calculation rate of 141.8%; these figures will be submitted to the FAA for approval; and*
- 2) overhead calculations will be reviewed on an annual basis.*

With regard to the first audit point, calculation of overhead on crack & joint repair projects, the Agency has:

- 1) updated and corrected fee schedules, and billings will be more accurate in the future.*

2. Internal Control Over Receipts

Good internal controls require adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal controls include preparing an initial record of monies received at the time the mail is opened. Good internal controls also require checks be endorsed "For deposit only to the State Treasurer" immediately upon opening the mail.

NEBRASKA DEPARTMENT OF AERONAUTICS

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Internal Control Over Receipts (Concluded)

During our review, we noted one individual opened the mail. This individual did not make an initial record of the monies received. The monies received were then given to a second individual to receipt. The second individual was also responsible for the processing of invoices, applying cash received to invoices, and reviewing the open accounts receivable aging report. We also noted checks received were not endorsed immediately upon the opening of the mail, but were endorsed when they were receipted.

Without an adequate segregation of duties or the endorsement of checks immediately upon receipt, there is an increased risk of the loss or misuse of State funds.

We recommend the Department require the individual who opens the mail to prepare an initial listing of the monies received. We also recommend the Department endorse checks "For deposit only to the State Treasurer" immediately upon receipt.

Department's Response: With regard to the second audit point, Internal Control Over Receipts, the Agency has instituted a new procedure whereby the receptionist immediately stamps all incoming checks with "Deposit Only-Department of Aeronautics-Nebraska State Treasurer." The checks are then written on a log by the receptionist before delivering them to the Accountant for receipt and deposit.

3. Timesheets

Good internal controls require employee timesheets be approved by the employee's supervisor before they are processed.

Two of the five employees tested did not have timesheets on file that were approved by their supervisor.

Without proper internal controls, there is an increased risk of the loss of State funds.

We recommend the Department ensure all timesheets are properly approved by a supervisor before processing payroll.

Department's Response: With regard to the third audit point, Timesheets, care will be taken to ensure that all timesheets are approved and signed by the employee's manager.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF AERONAUTICS

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Aeronautics
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics (Department) for the fiscal year ended June 30, 2007. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics for the fiscal year ended June 30, 2007, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008, on our consideration of the Nebraska Department of Aeronautics' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of management, the Nebraska Aeronautics Commission, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

March 21, 2008


Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF AERONAUTICS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2007

	Dept. of Aeronautics Cash Fund 21710	Aeronautics Trust Fund 61700	Totals (Memorandum Only)
REVENUES:			
Taxes	\$ 1,404,587	\$ -	\$ 1,404,587
Intergovernmental	17,798,226	-	17,798,226
Sales & Charges	325,562	-	325,562
Miscellaneous (Note 10)	1,031,513	375,356	1,406,869
TOTAL REVENUES	<u>20,559,888</u>	<u>375,356</u>	<u>20,935,244</u>
EXPENDITURES:			
Personal Services	1,501,004	-	1,501,004
Operating (Note 10)	2,184,792	744	2,185,536
Travel	98,487	-	98,487
Capital Outlay	123,054	-	123,054
Government Aid	18,068,613	-	18,068,613
TOTAL EXPENDITURES	<u>21,975,950</u>	<u>744</u>	<u>21,976,694</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,416,062)</u>	<u>374,612</u>	<u>(1,041,450)</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	628	-	628
Operating Transfers In (Note 8)	344,328	-	344,328
Operating Transfers Out (Note 8)	(6,482)	(337,846)	(344,328)
TOTAL OTHER FINANCING SOURCES (USES)	<u>338,474</u>	<u>(337,846)</u>	<u>628</u>
Net Change in Fund Balances	(1,077,588)	36,766	(1,040,822)
FUND BALANCES, JULY 1, 2006	<u>5,946,410</u>	<u>6,161,706</u>	<u>12,108,116</u>
FUND BALANCES, JUNE 30, 2007	<u>\$ 4,868,822</u>	<u>\$ 6,198,472</u>	<u>\$ 11,067,294</u>
FUND BALANCES CONSIST OF:			
General Cash	\$ 4,869,815	\$ -	\$ 4,869,815
Deposits with Vendors	3,002	-	3,002
Accounts Receivable Invoiced	12,147	-	12,147
Long-Term Investments	-	6,198,472	6,198,472
Due to Vendors	(16,142)	-	(16,142)
TOTAL FUND BALANCES	<u>\$ 4,868,822</u>	<u>\$ 6,198,472</u>	<u>\$ 11,067,294</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2007

1. Criteria

The accounting policies of the Nebraska Department of Aeronautics (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2006, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. Section 81-1111(1) R.R.S. 1999, The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of June 30, 2007, include only those payables posted in the general ledger before June 30, 2007, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2007, **does not** include amounts for goods and services received before June 30, 2007, which had not been posted to the general ledger as of June 30, 2007.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The major revenue account classifications established by State Accounting used by the Department are:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of aviation fuel taxes.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

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

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and rental of land and buildings.

The major expenditure account classifications established by State Accounting used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

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

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

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

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

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long term investments. Accounts receivable are recorded as an increase to revenues resulting in an

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger. Long term investments (investments) are stated at fair value based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. Reporting Entity

The Nebraska Department of Aeronautics is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Aeronautics is part of the primary government for the State of Nebraska.

3. Totals

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

4. General Cash

General cash accounts 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 operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Department to value all capital assets 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. Generally, equipment that has a cost of \$5,000 or more 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 are capitalized. Building improvements and renovations 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. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

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

Buildings	40 Years
Equipment	3 to 20 Years

(Continued on Next Page)

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Department recorded in the State Accounting System for the fiscal year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 165,269	\$ -	\$ -	\$ 165,269
Total capital assets not being depreciated	<u>\$ 165,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>165,269</u>
Capital assets being depreciated				
Buildings	\$ 2,244,248	\$ -	\$ -	\$ 2,244,248
Equipment	2,155,257	37,156	12,373	2,180,040
Total capital assets being depreciated	<u>\$ 4,399,505</u>	<u>\$ 37,156</u>	<u>\$ 12,373</u>	<u>4,424,288</u>
Less accumulated depreciation for:				
Buildings				1,388,731
Equipment				1,741,095
Total				<u>3,129,826</u>
Total capital assets, net of depreciation				<u>\$ 1,459,731</u>

6. Investments

Long-Term Investments represent the balance as reflected on NIS. These investments are part of the Nebraska Miscellaneous Trust Fund. Additional information on the Miscellaneous Trust Fund can be found in the State of Nebraska's CAFR as part of the Governmental and Business-Type Activities investment disclosure.

7. Loans Receivable

Loans Receivable represent the balance of loans made to airports in the State for hangars and fuel storage. State Accounting did not require the Department to record their receivables on the general ledger and these amounts are not reflected in the fund balances on the Schedule. Loan Receivable activity for the fiscal year ended June 30, 2007, was as follows:

Fund 21710	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Hangar Loans	\$ 2,688,144	\$ 646,581	\$ 464,935	\$ 2,869,790
Fuel Loans	149,141	94,500	46,419	197,222
Total	<u>\$ 2,837,285</u>	<u>\$ 741,081</u>	<u>\$ 511,354</u>	<u>\$ 3,067,012</u>

NEBRASKA DEPARTMENT OF AERONAUTICS

NOTES TO THE SCHEDULE

(Continued)

8. Transfers

Operating Transfers In and Out are mainly amounts transferred by the State Treasurer as required by Neb. Rev. Stat. Section 3-156 R.R.S. 1999, from the Aeronautics Trust Fund 61700 to the Aeronautics Cash Fund 21710.

9. Fund Balance, Aeronautics Trust Fund 61700

The fund balance in the Aeronautics Trust Fund 61700 represents the proceeds from the sale of land from four airfields that the Federal Government deeded to the State. These proceeds are invested. Gains and losses on the sale of investments are principal transactions which are added to or subtracted from the Trust Fund balance. The interest earned on the balance is transferred to the Department's cash fund for use per a written agreement with the Federal Aviation Administration dated 1969 and amended in 1971.

10. Aeronautics Trust Fund 61700

The Aeronautics Trust Fund 61700 is a common fund with the State Treasurer. Miscellaneous revenues reflect investment amounts received by the State Treasurer and expenditures reflect investment charges by the Nebraska Investment Council.

11. Reconciliation of Bank Records to the State's General Ledger

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Department. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Department's balances; however, State Accounting believes it will not have a material impact on the Department's operations.



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NEBRASKA DEPARTMENT OF AERONAUTICS
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Nebraska Department of Aeronautics
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics as of and for the year ended June 30, 2007, and have issued our report thereon dated March 21, 2008. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Aeronautics' internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Aeronautics' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Aeronautics' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Department of Aeronautics' ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Department of Aeronautics' financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Department of Aeronautics' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedule will not be prevented or detected by the Nebraska Department of Aeronautics' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Aeronautics' financial schedule is 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 schedule 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*.

We noted certain additional items that we reported to management of the Nebraska Department of Aeronautics in the Comments Section of this report as Comment Number 1 (Department Fees), Comment Number 2 (Internal Control Over Receipts), and Comment Number 3 (Timesheets).

The Nebraska Department of Aeronautics' written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Aeronautics' response and accordingly, we express no opinion on it. Where no response is indicated, the Department declined to respond.

This report is intended solely for the information and use of management, the Nebraska Aeronautics Commission, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

March 21, 2008


Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF AERONAUTICS

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF AERONAUTICS
AID DISBURSEMENTS BY AIRPORT
AIRPORT IMPROVEMENT PROGRAM
For the Fiscal Year Ended June 30, 2007

<u>City/Airport</u>	<u>Aid Payments</u>	<u>City/Airport</u>	<u>Aid Payments</u>
Albion	\$ 18,034	Loup City	348,922
Alliance	1,223,842	McCook	235,190
Alma	62,975	Military	31,500
Antelope	10,388	Minden	212,829
Auburn	7,346	Nebraska City	211,417
Aurora	32,571	Norfolk	33,864
Beatrice	122,016	North Omaha	114,058
Blair	405,756	North Platte	572,884
Broken Bow	419,043	Ogallala	1,089,912
Burwell	514,726	Omaha	751,527
Cambridge	39,157	O'Neill	12,139
Central City	627,870	Pawnee	39,959
Chadron	159,977	Pender	151,531
Columbus	200,490	Plattsmouth	790,127
Cozad	522,031	Red Cloud	105,544
Creighton	122,171	Rock County	129,949
Crete	328,861	Rushville	15,389
Curtis	158,765	Sargent	215,875
Fairbury	323,032	Seward	215,580
Falls City	158,386	Sidney	331,789
Fremont	7,798	Stuart Atkinson	5,511
Garden County	133,489	Superior	11,059
Grant	586,888	Tecumseh	105,171
Gordon	315,000	Tekamah	160,475
Hall County	46,262	Thomas	856,396
Hartington	35,563	Valentine	44,882
Hastings	37,466	Valley County	111,830
Hebron	30,937	Wahoo	1,360,164
Holdrege	255,272	Wayne	34,693
Imperial	162,901	Western Nebraska Regional	2,116,453
Kimball	22,874	York	5,715
Lexington	554,392		
		TOTAL	<u>\$ 18,068,613</u>

NEBRASKA DEPARTMENT OF AERONAUTICS
DISBURSEMENTS
For the Fiscal Years Ended June 30, 2003 Through 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Disbursements by Program					
Cash Fund 21710 Prog 026-Development & Enforcement	\$ 638,163	\$ 566,513	\$ 1,851,006	\$ 2,060,905	\$ 3,323,239
Cash Fund 21710 Prog 301-Public Airports	19,382,980	17,224,193	16,578,002	17,966,347	18,037,114
Cash Fund 21710 Prog 596-State Owned Aircraft	469,586	515,566	576,890	632,227	615,598
Trust Fund 61700	336	773	957	775	744
Total	<u>\$ 20,491,065</u>	<u>\$ 18,307,045</u>	<u>\$ 19,006,855</u>	<u>\$ 20,660,254</u>	<u>\$ 21,976,695</u>

Disbursements by Major Account Category

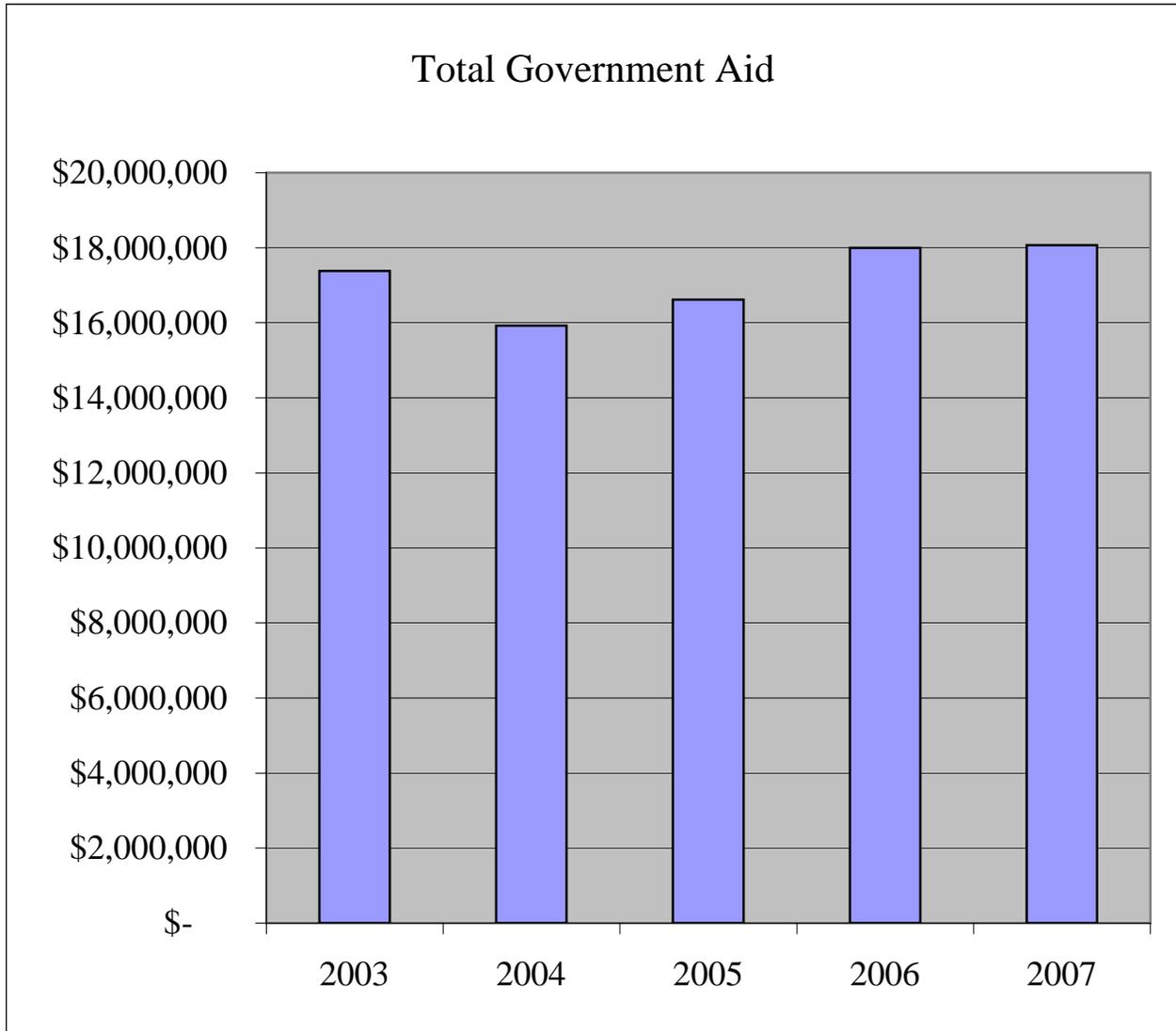
Personal Services	\$ 1,352,899	\$ 1,287,348	\$ 1,362,646	\$ 1,453,508	\$ 1,501,004
Operating Expenses	857,295	905,483	904,259	946,635	2,185,537
Travel	95,524	90,374	89,991	82,414	98,487
Capital Outlay	802,300	102,401	29,451	179,850	123,054
Government Aid	17,383,047	15,921,439	16,620,508	17,997,847	18,068,613
Total	<u>\$ 20,491,065</u>	<u>\$ 18,307,045</u>	<u>\$ 19,006,855</u>	<u>\$ 20,660,254</u>	<u>\$ 21,976,695</u>

Note: The Government Aid amount for 2004 includes the reclassification of hangar and fuel farm loan payments made of \$521,778. Hangar and fuel farm loan amounts are shown in Capital Outlay for 2003.

NEBRASKA DEPARTMENT OF AERONAUTICS
TOTAL GOVERNMENT AID
 For the Fiscal Years Ended June 30, 2003 Through 2007

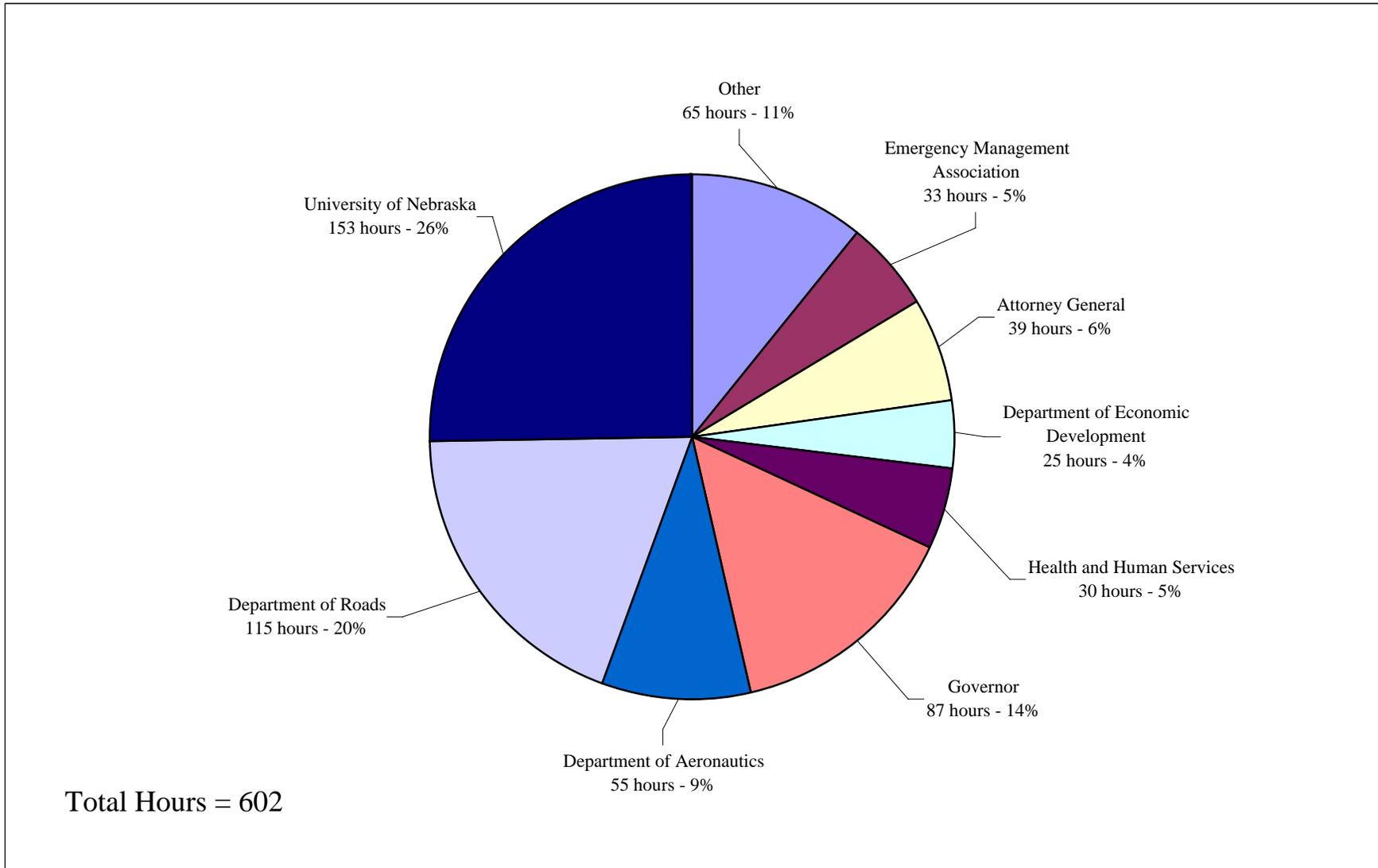
	2003	2004	2005	2006	2007
Total Government Aid	\$ 17,383,047	\$ 15,921,439	\$ 16,620,508	\$ 17,997,847	\$ 18,068,613

(Note 1)



Note 1: The Government Aid amount for 2004 includes the reclassification of hangar and fuel farm loan payments made of \$521,778. Hangar and fuel farm loan amounts are shown in Capital Outlay for 2003.

NEBRASKA DEPARTMENT OF AERONAUTICS
AIRCRAFT HOURS USED BY AGENCY
For the Fiscal Year Ended June 30, 2007



Note: Governor's hours include \$32,500 of travel that is subsidized by the Department of Aeronautics. Governor's hours also includes hours for trips that were partially charged to other agencies.