

**AUDIT REPORT
OF THE
NEBRASKA DAIRY INDUSTRY
DEVELOPMENT BOARD**

**FOR THE PERIOD
JANUARY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

BACKGROUND

The Nebraska Dairy Industry Development Act was enacted by the Legislature in 1992 in anticipation of the national checkoff related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded. United States Department of Agriculture (USDA), Agricultural Marketing Service, published 7 C.F.R. Part 1065 in the Federal Register on December 23, 1998. This rule terminated the advertising and promotion provisions of Order 65 with respect to milk marketed on or after December 1, 1998. The Nebraska Dairy Industry Development Board (Dairy Board) initially worked with the Department of Agriculture to plan for a smooth transition of the checkoff program from the national level to the state level. January 1999 was the first month that collection fees were received by the Board.

Neb. Rev. Stat. Section 2-3958 R.R.S., 1997, requires a mandatory assessment of 10 cents per hundredweight on all milk produced in the state for commercial use. These funds are administered by the Dairy Board to finance programs of maintaining and expanding domestic sales of milk and dairy products, developing new products and markets, improving methods and practices relating to marketing or processing of milk and dairy products, and informing and educating consumers of sound nutritional principles, including the role of milk in a balanced diet.

For our audit period, the Board was contracting with the American Dairy Association of Nebraska and the Dairy Council of Nebraska, Inc., to assist them in reaching their goals. The Board also contracts with the Department of Agriculture for the administrative functions of collection and auditing, as there are no persons employed by the Dairy Board.

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the period January 1, 1999 through June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Dairy Industry Development Board, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Dairy Industry Development Board as of June 30, 2000, and the receipts and disbursements for the period January 1, 1999 through June 30, 2000, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2000, on our consideration of the Nebraska Dairy Industry Development Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report on compliance and on internal control over financial reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the financials.

A handwritten signature in cursive script that reads "Julia Peralez CPA". The signature is written in black ink and is positioned to the right of the date.

July 28, 2000

Manager

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUND TYPE
 June 30, 2000

	<u>Governmental</u>	
	<u>Fund Type</u>	
		<u>Special</u>
		<u>Revenue</u>
<u>Assets</u>		
Cash in State Treasury	\$	111,112
Deposit with Department of Agriculture		<u>791</u>
Total Assets	\$	<u><u>111,903</u></u>
<u>Fund Balance</u>		
Fund Balance,		
Unreserved, Undesignated	\$	<u>111,903</u>
Total Fund Balance	\$	<u><u>111,903</u></u>

See Notes to Financial Statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
**STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE**
For the Period January 1, 1999 Through June 30, 2000

	Special Revenue <u>Fund</u>
RECEIPTS:	
Dairy Checkoff	\$ 1,748,215
Penalty	2,024
Other Revenue	25
Investment Interest	<u>6,618</u>
TOTAL RECEIPTS	<u>1,756,882</u>
 DISBURSEMENTS:	
Administrative Service Contract	21,442
Fee Collection Contract	5,901
Dairy Council of Central States	661,393
American Dairy Assn. Of Nebraska	954,803
Board Expense	<u>1,440</u>
TOTAL DISBURSEMENTS	<u>1,644,979</u>
Excess of Receipts Over (Under) Disbursements	<u>111,903</u>
FUND BALANCE, JANUARY 1, 1999	<u>-</u>
FUND BALANCE, JUNE 30, 2000	<u><u>\$ 111,903</u></u>

See Notes to Financial Statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For Period January 1, 1999 Through June 30, 2000

	FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Dairy Checkoff	\$ 2,199,500	\$ 1,748,215	\$ (451,285)
Penalty	-	2,024	2,024
Other Revenue	25	25	-
Investment Interest	4,300	6,618	2,318
TOTAL RECEIPTS	2,203,825	1,756,882	(446,943)
DISBURSEMENTS:			
Administrative Service Contract	22,000	21,442	558
Fee Collection Contract	15,524	5,901	9,623
Dairy Council of Central States	930,219	661,393	268,826
American Dairy Assn. Of Nebraska	1,233,082	954,803	278,279
Board Expense	3,000	1,440	1,560
Total Budgeted	2,203,825	1,644,979	558,846
Unobligated (Note 3)	560,175	-	560,175
TOTAL DISBURSEMENTS	2,764,000	1,644,979	1,119,021
Excess of Receipts Over (Under) Disbursements		111,903	
FUND BALANCE, JANUARY 1, 1999		-	
FUND BALANCE, JUNE 30, 2000		\$ 111,903	

See Notes to Financial Statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

For the Period January 1, 1999 through June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Dairy Industry Development Board are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Dairy Industry Development Board (the Board) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Board is exempt from State and Federal income taxes. The financial statements include all funds of the Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Board, or the significance of their relationship with the Board are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Board 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 Board.

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

- B. **Basis of Accounting.** The accounting records of the Board are maintained and the Board's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.
- C. **Fund Accounting.** The accounts and records of the Board are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which record receipts, disbursements, and the fund balance. The fund type presented on the financial statements is that required by GAAP and is the Special Revenue Fund Type which reflects transactions related to resources received and used for restricted or specific purposes.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

This fund type classification differs from the budgetary fund type used by the Nebraska Accounting System.

The fund type established by the Nebraska Accounting System that is used by the Board is the Cash Fund (2000) which accounts for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Board and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the Department of Administrative Services Accounting Division.

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

All State budgetary disbursements for the cash fund are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

The Board utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Board's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Board's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the period January 1, 1999 through June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for receipt and disbursement accounts are included in the Board approved budget.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is appropriately classified as a special revenue fund for Financial Statement purpose.

E. Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. The Board's fund was designated for investment during the period January 1, 1999 through June 30, 2000.

F. Receipts. The titles and descriptions used by the Board are:

Dairy Checkoff. Dairy checkoff is a mandatory assessment of ten cents per hundredweight charged to producers of milk to be used for promotion, education, and marketing of dairy products.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Penalty. Penalty is a 1.5% fine charged on the dairy checkoff fees that are past due.

Other Revenue. Receipts from sources not covered by other major categories. Specifically, a payment from the National Dairy Promotion and Research Board for verification of a report of milk handlers that have made payments to the Dairy checkoff program.

Investment Interest. Investment interest earned on monies invested by the State Investment Officer.

G. **Disbursements.** The titles and descriptions used by the Board are:

Administrative Service Contract. Payments to the Dairy Council of Central States for administrative services provided to the Board.

Fee Collection Contract. Contractual payments to the Department of Agriculture for services rendered during collection of the dairy checkoff fee. This includes fee collecting, budgeting, accounting, and auditing.

Dairy Council of Central States. Contractual payments to the Dairy Council of Central States (official name changed to Dairy Council of Nebraska, Inc. on April 15, 1999) for promotional and educational programs for dairy products.

American Dairy Association of Nebraska. Contractual payments to the American Dairy Association of Nebraska for promotional and educational programs for dairy products.

Board Expense. Disbursements relating to the board members, such as travel reimbursements.

2. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Board, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage with a limit of \$1 million for each loss with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000 with a self-insured retention of \$100,000 per loss occurrence. The perils of Flood and Earthquake are covered up to \$9,000,000. Newly acquired properties are only covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

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

Litigation. The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is the Board's opinion that final settlement of those matters should not have an adverse effect on the Board's ability to administer current programs. Any judgement against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

3. **Unobligated**

The Board budgets for the amounts they expect to receive and to disburse. The difference between the amount budgeted for disbursements and the amount of the appropriation is indicated as unobligated.

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Auditor of Public Accounts



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

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the period January 1, 1999 through June 30, 2000, and have issued our report thereon dated July 28, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Dairy Industry Development Board. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Dairy Industry Development Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including compliance with the requested specific United States Department of Agriculture's program requirements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Dairy Industry Development Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial

reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julia Peralez CPA". The signature is written in black ink and is positioned to the right of the date.

July 28, 2000

Manager