

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS**

**JULY 1, 2000 THROUGH JUNE 30, 2001**

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**BACKGROUND**

Every person engaged in distributing or selling cigarettes at wholesale in the State of Nebraska is required to pay a special privilege tax to the Department. This is accomplished by requiring all cigarettes sold within the State to be stamped. On each package of cigarettes containing not more than twenty cigarettes, thirty-four cents shall be paid. On packages containing more than twenty cigarettes, the distributor or seller shall pay the same tax as provided on packages containing not more than twenty cigarettes for the first twenty cigarettes in each package and a tax of one-twentieth of the tax on the first twenty cigarettes on each cigarette in excess of twenty cigarettes in each package.

The money received by the Department from the sale of the stamps is deposited with the State Treasurer, who distributes the proceeds as required by State Statute.

# STATE OF NEBRASKA

## AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

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We have audited the financial statement of the Nebraska Department of Revenue - Cigarette Tax Receipts as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is 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, this financial statement was prepared on the basis of cash receipts, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statement presents only the Nebraska Department of Revenue - Cigarette Tax Receipts, and is 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 statement referred to above presents fairly, in all material respects, the cigarette tax receipts for the fiscal year ended June 30, 2001, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2001, on our consideration of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement, except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

August 22, 2001

  
Manager

**NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS**  
**STATEMENT OF CIGARETTE TAX RECEIPTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Net Sales Per Month (Note 2)

July 2000	\$	3,839,156
August 2000		3,954,609
September 2000		3,247,331
October 2000		3,368,170
November 2000		4,165,299
December 2000		2,721,213
January 2001		3,263,405
February 2001		2,940,153
March 2001		3,422,537
April 2001		2,804,260
May 2001		4,316,685
June 2001		3,912,866
Net Cigarette Tax Receipts	\$	<u>41,955,684</u>

See Notes to the Statement of Cigarette Tax Receipts.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2001

**1. Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as described in the Nebraska Accounting System Manual.

**A. Reporting Entity.** Cigarette tax receipts are a part of the Nebraska Department of Revenue, a State agency established under and governed by the laws of the State of Nebraska. The Nebraska Department of Revenue is part of the primary government for the State of Nebraska's reporting entity. The Statement includes only the cigarette tax receipts and is not intended to present fairly the receipts of the Nebraska Department of Revenue as a whole.

**B. Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Nebraska Department of Revenue's Statement of Cigarette Tax Receipts are maintained and were prepared on the basis of cash receipts. As such, the measurement focus includes only those cigarette tax receipts arising from cash transactions. Under the cash receipts basis of accounting, revenues are recognized when received. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual.

**2. A. Sales Discounts Allowed.** Wholesale dealers of cigarettes are allowed a discount of three and four-tenths percent of the face value of the cigarette tax as commission for affixing and canceling such cigarette stamps in accordance with Neb. Rev. Stat. Section 77-2608, R.S. Supp., 2000. The total amount of sales discounts for the fiscal year was \$1,476,701.

**B. Refund/Credits.** Refunds and Credits are allowed on the sale of cigarette stamps for the following reasons:

- 1) Refunds are allowed when cigarette tax stamps are returned to the Department of Revenue unused. These stamps will either be reissued to another wholesaler or destroyed.
- 2) Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- 3) Credits are allowed for cigarettes sold to the U.S. Government or its agencies, as these sales are exempt from tax.

The total amount of refunds/credits allowed on the sale of cigarette tax stamps for the fiscal year was \$381,172.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

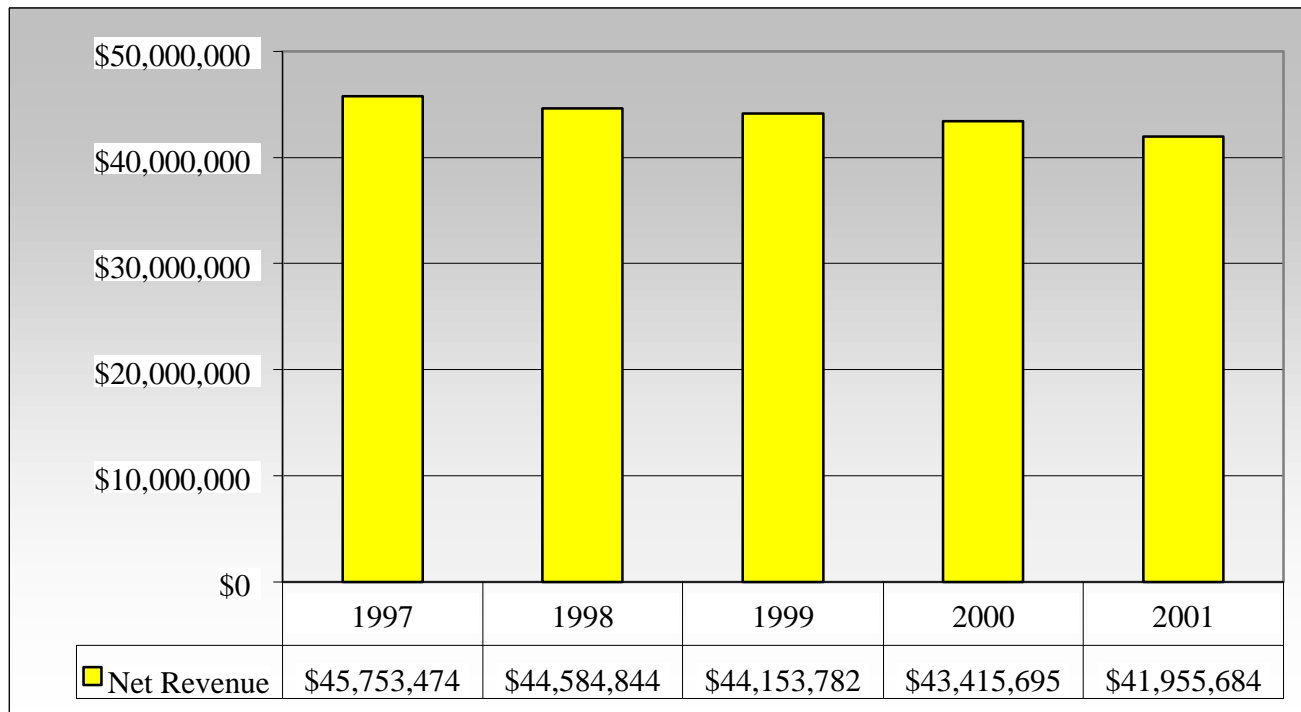
**3. Contingencies**

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



NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS  
**NET REVENUE**  
 FISCAL YEARS 1997 THROUGH 2001

	Fiscal Year				
	1997	1998	1999	2000	2001
Tax Rate Per Pack	0.34	0.34	0.34	0.34	0.34
Gross Revenue	\$ 47,363,845	\$ 46,154,083	\$ 45,707,849	\$ 44,943,783	\$ 43,432,385
Less: Wholesaler's Discount (Allowance)	<u>\$ 1,610,371</u>	<u>\$ 1,569,239</u>	<u>\$ 1,554,067</u>	<u>\$ 1,528,088</u>	<u>\$ 1,476,701</u>
Net Revenue	<u><u>\$ 45,753,474</u></u>	<u><u>\$ 44,584,844</u></u>	<u><u>\$ 44,153,782</u></u>	<u><u>\$ 43,415,695</u></u>	<u><u>\$ 41,955,684</u></u>



NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**CIGARETTE TAX RATES FOR ALL STATES AS OF JANUARY 1, 2001**  
**UNAUDITED**

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
New York	111	1	Florida	33.9	27
Alaska	100	2	South Dakota	33	28
Hawaii	100	2	Arkansas (2)	31.5	29
California	87	4	Pennsylvania	31	30
Washington	82.5	5	Idaho	28	31
New Jersey	80	6	Delaware	24	32
Massachusetts	76	7	Kansas	24	32
Michigan	75	8	Louisiana	24	32
Maine	74	9	Ohio	24	32
Rhode Island	71	10	Oklahoma	23	36
Oregon	68	11	New Mexico	21	37
Maryland	66	12	Colorado	20	38
Wisconsin	59	13	Mississippi	18	39
District of Columbia	65	13	Montana	18	39
Arizona	58	15	Missouri (1)	17	41
Illinois (1)	58	15	West Virginia	17	41
New Hampshire	52	17	Alabama (1)	16.5	43
Utah	51.5	18	Indiana	15.5	44
Connecticut	50	19	Tennessee (1) (2)	13	45
Minnesota	48	20	Georgia	12	46
North Dakota	44	21	Wyoming	12	46
Vermont	44	21	South Carolina	7	48
Texas	41	23	North Carolina	5	49
Iowa	36	24	Kentucky (2)	3	50
Nevada	35	25	Virginia (1)	2.5	51
Nebraska	34	26			

Source: Compiled by the Federation of Tax Administrators from various sources.

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢ ; IL 10¢ to 15¢ ; MO, 4¢ to 7¢ ; TN, 1¢ ; and VA, 2¢ to 15¢
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and .05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.

# STATE OF NEBRASKA

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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We have audited the financial statement of the Nebraska Department of Revenue - Cigarette Tax Receipts as of and for the year ended June 30, 2001, and have issued our report thereon dated August 22, 2001. The report notes the financial statement was prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statement presents only the funds of the Nebraska Department of Revenue - Cigarette Tax Receipts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

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

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over

financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement 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 statement 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 Department, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, reading "Deann Hayffner CPA". The signature is written in a cursive style with a clear, legible font.

Manager

August 22, 2001