

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

JULY 1, 2000 THROUGH JUNE 30, 2001

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Financial Section	
Independent Auditors' Report	2 - 3
Financial Statements:	
Statement of Assets and Fund Balance Arising from Cash Transactions – Special Revenue Fund Type	4
Statement of Receipts, Disbursements, and Changes in Fund Balance	5
Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Cash Fund	6
Notes to Financial Statements	7 - 12
Schedules:	
Schedule of Dairy Contract Disbursements by Fiscal Year	13
Schedule of Other Disbursements by Fiscal Year	14
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	15 - 16

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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded. The 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 (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 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. The funds are used 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 contracted with the American Dairy Association of Nebraska and the Dairy Council of Nebraska Inc., to assist them in reaching their goals. The Board also contracted with the Nebraska Department of Agriculture for the administrative functions of collecting, disbursing, and auditing, as there are no persons employed by the Dairy Board.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

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

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

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the fiscal year ended June 30, 2001, 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 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 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, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2001, 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, including compliance with the requested United States Department of Agriculture's specific program requirements. 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 statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

October 19, 2001


Manager

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUND TYPE
June 30, 2001

	<u>Governmental Fund Type</u>
	<u>Special Revenue</u>
<u>Assets</u>	
Cash in State Treasury	\$ 102,626
Deposit with Nebraska Department of Agriculture	<u>791</u>
Total Assets	<u><u>\$ 103,417</u></u>
<u>Fund Balance</u>	
Fund Balance, Unreserved, Undesignated	<u>103,417</u>
Total Fund Balance	<u><u>\$ 103,417</u></u>

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Type Special Revenue
RECEIPTS:	
Dairy Checkoff	\$ 1,229,789
Penalty	8
Miscellaneous	50
Investment Interest	3,634
TOTAL RECEIPTS	<u>1,233,481</u>
DISBURSEMENTS:	
Administrative Service Contract	11,722
Fee Collection Contract	5,560
Dairy Council of Central States	427,677
American Dairy Assn. of Nebraska	792,958
Board Expense	1,061
Annual Audit	2,989
TOTAL DISBURSEMENTS	<u>1,241,967</u>
Excess of Receipts (Under) Disbursements	<u>(8,486)</u>
FUND BALANCE, JULY 1, 2000	<u>111,903</u>
FUND BALANCE, JUNE 30, 2001	<u><u>\$ 103,417</u></u>

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2001

		CASH FUND	
		ACTUAL	VARIANCE
		(BUDGETARY	FAVORABLE
BUDGET		BASIS)	(UNFAVORABLE)
RECEIPTS:			
Dairy Checkoff	\$	1,229,789	
Penalty		8	
Miscellaneous		50	
Investment Interest		3,634	
TOTAL RECEIPTS		1,233,481	
DISBURSEMENTS:			
Administrative Service Contract	\$	13,760	11,722 \$ 2,038
Fee Collection Contract		10,218	5,560 4,658
Dairy Council of Central States		472,690	427,677 45,013
American Dairy Assn. of Nebraska		877,852	792,958 84,894
Board Expense		1,500	1,061 439
Annual Audit		-	2,989 (2,989)
Total Budgeted		1,376,020	1,241,967 134,053
Unobligated (Note 3)		276,325	- 276,325
TOTAL DISBURSEMENTS		1,652,345	1,241,967 410,378
Excess of Receipts (Under) Disbursements			(8,486)
FUND BALANCE, JULY 1, 2000			111,903
FUND BALANCE, JUNE 30, 2001			\$ 103,417

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

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 (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 and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Board are maintained and the Board's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

(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 records receipts, disbursements, and the fund balance. The fund type presented on the financial statements is that required by GAAP, and includes:

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

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:

2000 – Cash Fund – 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 appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this 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 type are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major 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.

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 year ended June 30, 2001, there were no budgetary funds in which disbursements exceeded appropriations.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Budgets for disbursement accounts are included in the budget approved by the Board and in the Nebraska Department of Administrative Services Budget Status Report. Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

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 purposes.

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 a fund is considered designated for investment is done on an individual fund basis. The fund of the Board was designated for investment during fiscal year 2001.

F. Receipts. The major account titles and descriptions as established 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.

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

Miscellaneous. Receipts from sources not covered by other major categories.

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

G. Disbursements. The major account titles and descriptions as established by the Board are:

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 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 Board members, such as travel reimbursements.

Annual Audit. Contractual payment for annual audit completed by the Nebraska Auditor of Public Accounts.

2. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The 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 State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

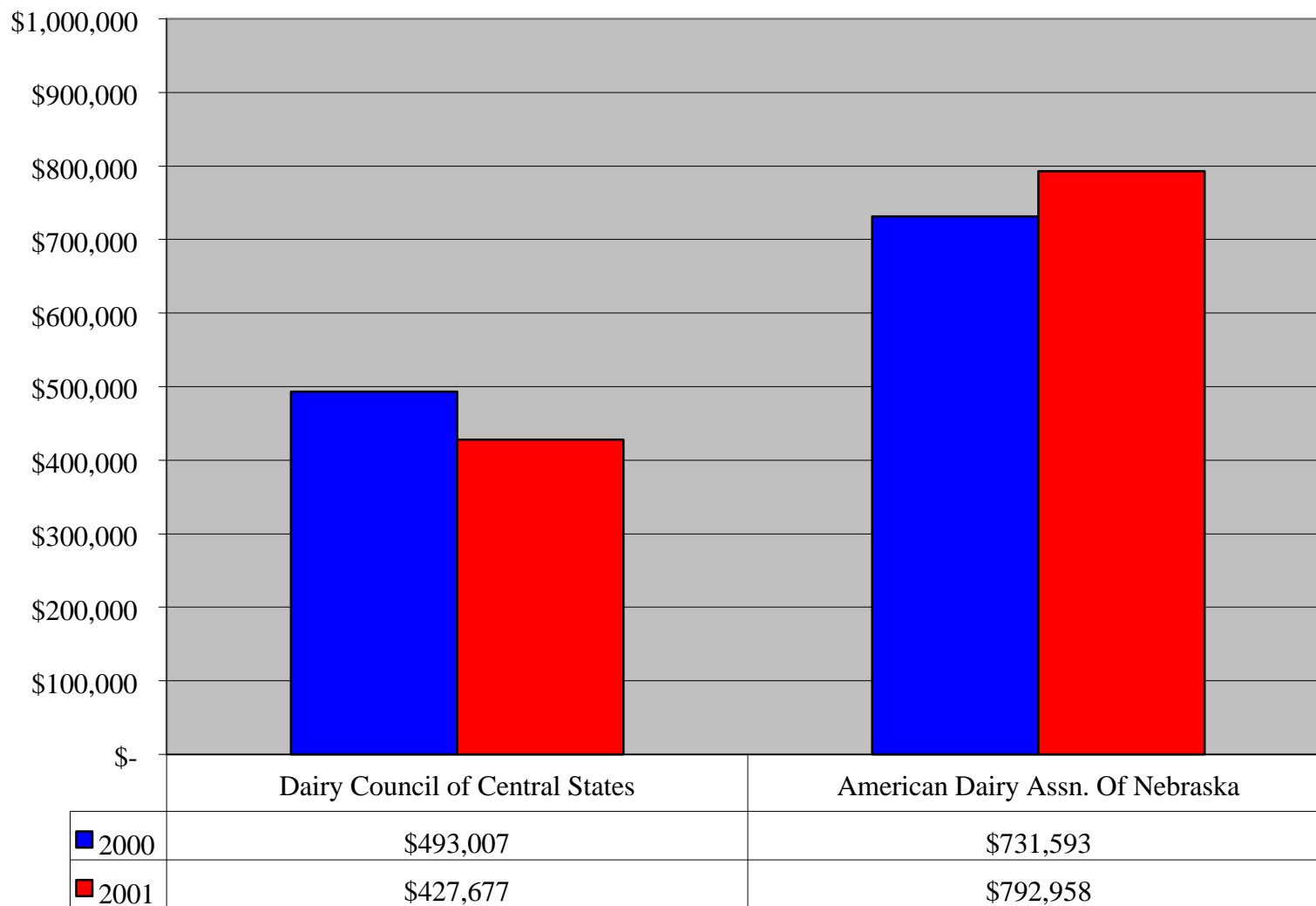
No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service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

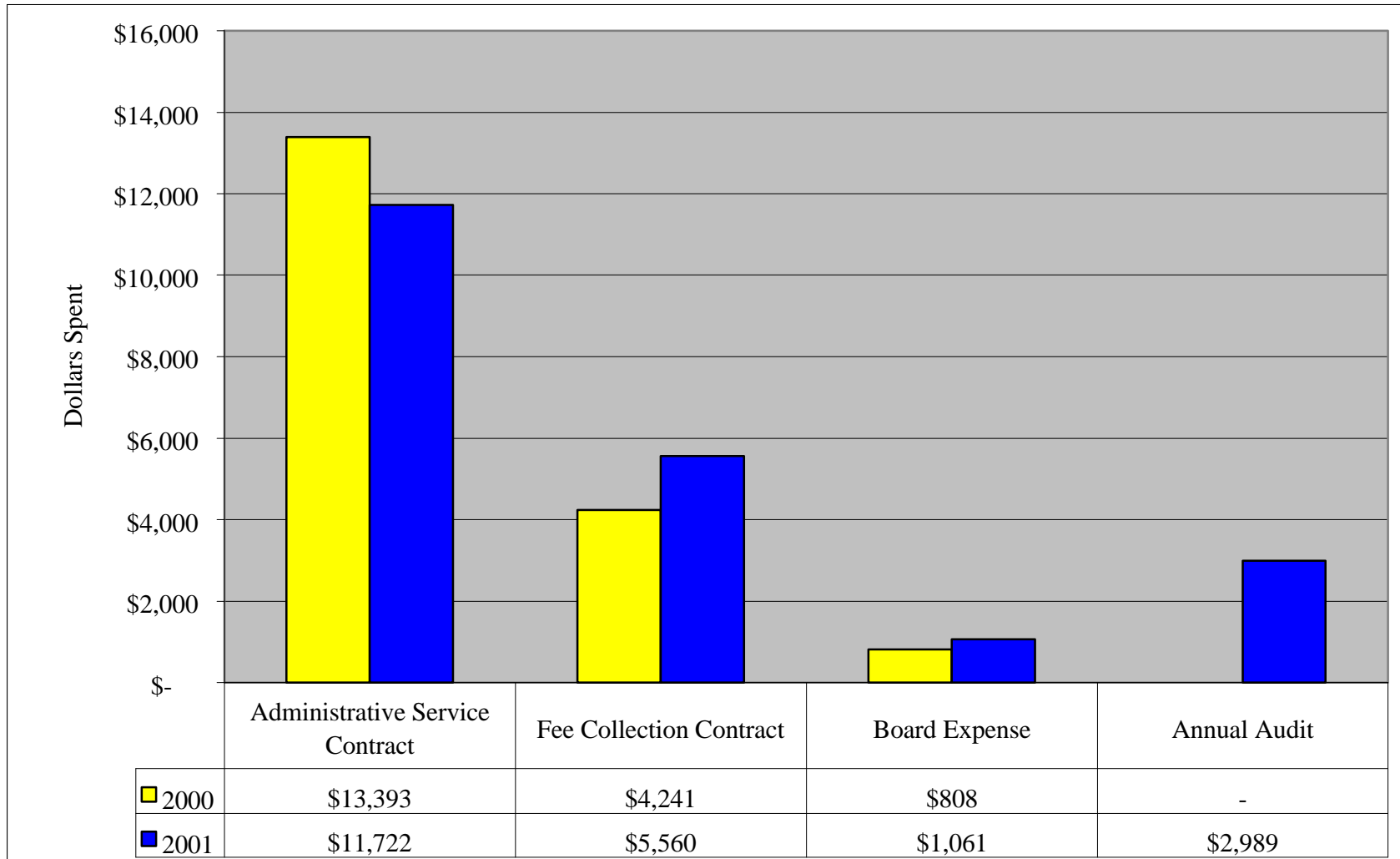
3. **Unobligated**

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

SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR
SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR
For the Fiscal Years Ended June 30, 2000 and June 30, 2001



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR
For the Fiscal Years Ended June 30, 2000 and June 30, 2001



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

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

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**

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

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

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

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2001, and have issued our report thereon dated October 19, 2001. 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 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 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 United States Department of Agriculture's specific 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 Board, 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.

Handwritten signature of Timothy J. Chamber CPA in cursive script.

Manager

October 19, 2001