

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

JULY 1, 2001 THROUGH JUNE 30, 2002

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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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded. 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.

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

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We have audited the accompanying financial statements of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board (Board), as of and for the year ended June 30, 2002, which collectively comprise the Board's basic financial statements 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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Dairy Industry Development Board, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and the major fund of the State that is attributable to the transactions of the Nebraska Dairy

Industry Development Board. They do not purport to, and do not, present fairly the cash balances of the governmental activities and the major fund of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The Nebraska Dairy Industry Development Board is a part of the primary government for the State of Nebraska's reporting entity. In our opinion, the Board's financial statements present fairly, in all material respects, the respective cash balances of the governmental activities and the major fund of the Board, a part of the primary government, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

However, the Board's financial statements, because they do not include the financial data of component units of the Board, do not purport to, and do not, present fairly the respective cash balances of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board, as of June 30, 2002, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2002, 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. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 3, 2002



Assistant Deputy Auditor

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Dairy Industry Development Board's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Dairy Industry Development Board for the fiscal year ended June 30, 2002. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Dairy Industry Development Board's basic financial statements. The Board's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Board's overall financial status. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The Board's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. Agency-wide financial statements divide the Board into three kinds of activities:

Governmental activities – The Board's basic services are included here. These activities are generally financed through charges for services.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Board had no business-type activities for fiscal year ended June 30, 2002.

Component units – The Board has identified two component units. They are the American Dairy Association (ADA) and the Dairy Council (DC). The financial statements of the Board do not include the financial information of the ADA or DC, which should be included as blended component units in order to conform with generally accepted accounting principles. The ADA and DC should be included because the significance of their relationship with the Board is such that exclusion would be misleading or incomplete. The ADA and DC are audited annually as a requirement to remain a USDA qualified program. Both entities have a December 31 fiscal year end.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Board, reporting the Board's operations in more detail than the agency-wide statements by providing information about the Board's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The Board currently has no proprietary funds.

The Board currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements, and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information, which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as the schedule of checkoff revenue trend, a schedule of dairy contract disbursements by fiscal year, and a schedule of other disbursements by fiscal year. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Dairy Industry Development Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE BOARD AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Board (current assets resulting from cash basis transactions) decreased 14 percent.

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
RECEIPTS:		
Restricted	\$ 89,329	\$ 103,417
Total Net Assets	<u>\$ 89,329</u>	<u>\$ 103,417</u>

Governmental Activities

Receipts for the Board's governmental activities decreased 7 percent, while expenses decreased 7 percent.

ENTITY'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2002</u>	<u>2001</u>	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 1,140,598	\$ 1,229,847	-7%
Operating Grants & Contributions	2,566	3,634	-29%
Total Receipts	<u>1,143,164</u>	<u>1,233,481</u>	<u>-7%</u>
DISBURSEMENTS:			
Economic Development and Assistance	<u>1,157,252</u>	<u>1,241,967</u>	<u>-7%</u>
Total Disbursements	<u>1,157,252</u>	<u>1,241,967</u>	<u>-7%</u>
Increase (Decrease) in Net Assets	(14,088)	(8,486)	66%
Beginning Net Assets July 1	<u>103,417</u>	<u>111,903</u>	<u>-8%</u>
Ending Net Assets June 30	<u>\$ 89,329</u>	<u>\$ 103,417</u>	<u>-14%</u>

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the Nebraska Dairy Industry Development Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. No significant changes from the prior year were noted.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Dairy Industry Development Board.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 88,538
Deposit with Nebraska Department of Agriculture	<u>791</u>
Total Assets	<u><u>\$ 89,329</u></u>
Net Assets	
Restricted for:	
Nebraska Dairy Industry Development	<u>\$ 89,329</u>
Total Net Assets	<u><u>\$ 89,329</u></u>

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF ACTIVITIES - CASH BASIS
 June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Operating	\$ 1,155,428
Travel	1,824
Total Disbursements	1,157,252
Program Receipts:	
Charges for Services	1,140,598
Operating Grants & Contributions	2,566
Net Program Receipts (Disbursements)	(14,088)
Change in Net Assets	(14,088)
Net Assets July 1, 2001	103,417
Net Assets June 30, 2002	\$ 89,329

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUND

June 30, 2002

	Major Fund
Assets	Fund 2610
	Nebraska Dairy Industry Development
Cash in State Treasury	\$ 88,538
Deposit with Nebraska Department of Agriculture	791
Total Assets	\$ 89,329
Fund Balance	
Unreserved	\$ 89,329
Total Fund Balance	\$ 89,329

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**
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2002

	Major Fund
	Fund 2610
	Nebraska Dairy
	Industry
	Development
RECEIPTS:	
Sales & Charges	\$ 1,140,596
Miscellaneous:	
Investment Interest	2,566
Other Miscellaneous	2
TOTAL RECEIPTS	1,143,164
DISBURSEMENTS BY FUNCTION:	
Economic Development and Assistance	1,157,252
TOTAL DISBURSEMENTS	1,157,252
Net Change in Fund Balances	(14,088)
FUND BALANCE, JULY 1, 2001	103,417
FUND BALANCE, JUNE 30, 2002	\$ 89,329

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, 2002

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 is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the 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 only the Nebraska Dairy Industry Development Board, which is part of the primary government for the State of Nebraska's reporting entity. The financial statements do not include the financial data of the American Dairy Association of Nebraska (ADA) or the Dairy Council of Nebraska, Inc. (DC), which should be included as blended component units of the Board in order to conform with generally accepted accounting principles. The ADA and DC should be included because of the significance of their operational or financial relationships with the Board. The ADA and DC are fiscally dependent on the Board and they provide services almost entirely to the Board. The separate audited financial statements of the ADA and DC can be obtained from the ADA/DC administrative office.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Board, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Board. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

to be eliminated to minimize double counting. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts.

Fund Financial Statements. The fund financial statements provide information about the Board's fund. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Board uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

Special Revenue Fund. This is the Board's primary operating fund. It accounts for financial resources received and used for specific purposes.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Board are maintained and the Agency-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

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. All of the funds of the Board were designated for investment during fiscal year 2002.

Restricted Net Assets. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Neb. Rev. Stat. Section 2-3960 R.R.S. 1997, restricts the use of the funds to “advertising and promotion, market research, nutrition and product research and development, and nutrition and educational programs.” Neb. Rev. Stat. Section 2-3961 R.R.S. 1997, restricts the use of the funds to “active, ongoing, qualified programs” of the USDA.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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.
- 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SUPPLEMENTARY INFORMATION
 NEBRASKA DAIRY INDUSTRY DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2002

Nebraska Dairy Industry Development Fund				
PROGRAM:	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Dairy Industry Development Board	\$ 1,768,346	\$ 1,768,315	\$ 1,157,252	\$ 611,063
TOTAL DISBURSEMENTS	\$ 1,768,346	\$ 1,768,315	\$ 1,157,252	\$ 611,063

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Board's legally adopted annual budget amount. The Board's budgetary comparison schedule includes the Nebraska Dairy Industry Development Fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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 presents the 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.

The approved appropriations 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. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

All State budgetary disbursements for the Board's Nebraska Dairy Industry Development Fund 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 objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill.

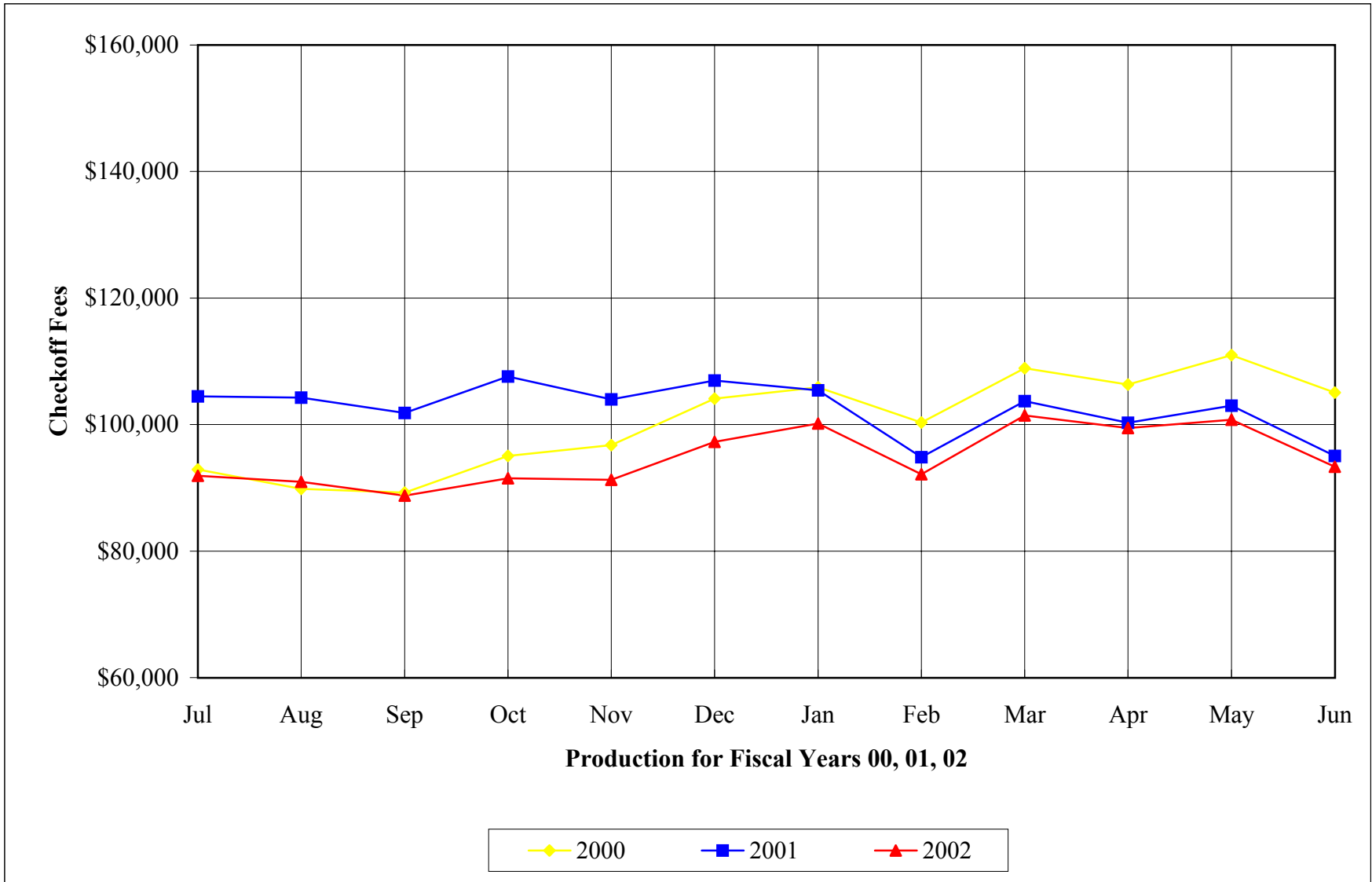
Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

The Board budgets for the amounts they expect to receive and disburse. The difference between the appropriation amount of \$1,768,315 and the budgeted disbursements amount of \$1,260,486 is \$507,829. This amount represents the amount of unobligated appropriations. The \$611,063 variance shown on the Budgetary Comparison Schedule should be reduced by the unobligated appropriations amount, resulting in the Board being \$103,234 under budget for the fiscal year ended June 30, 2002.

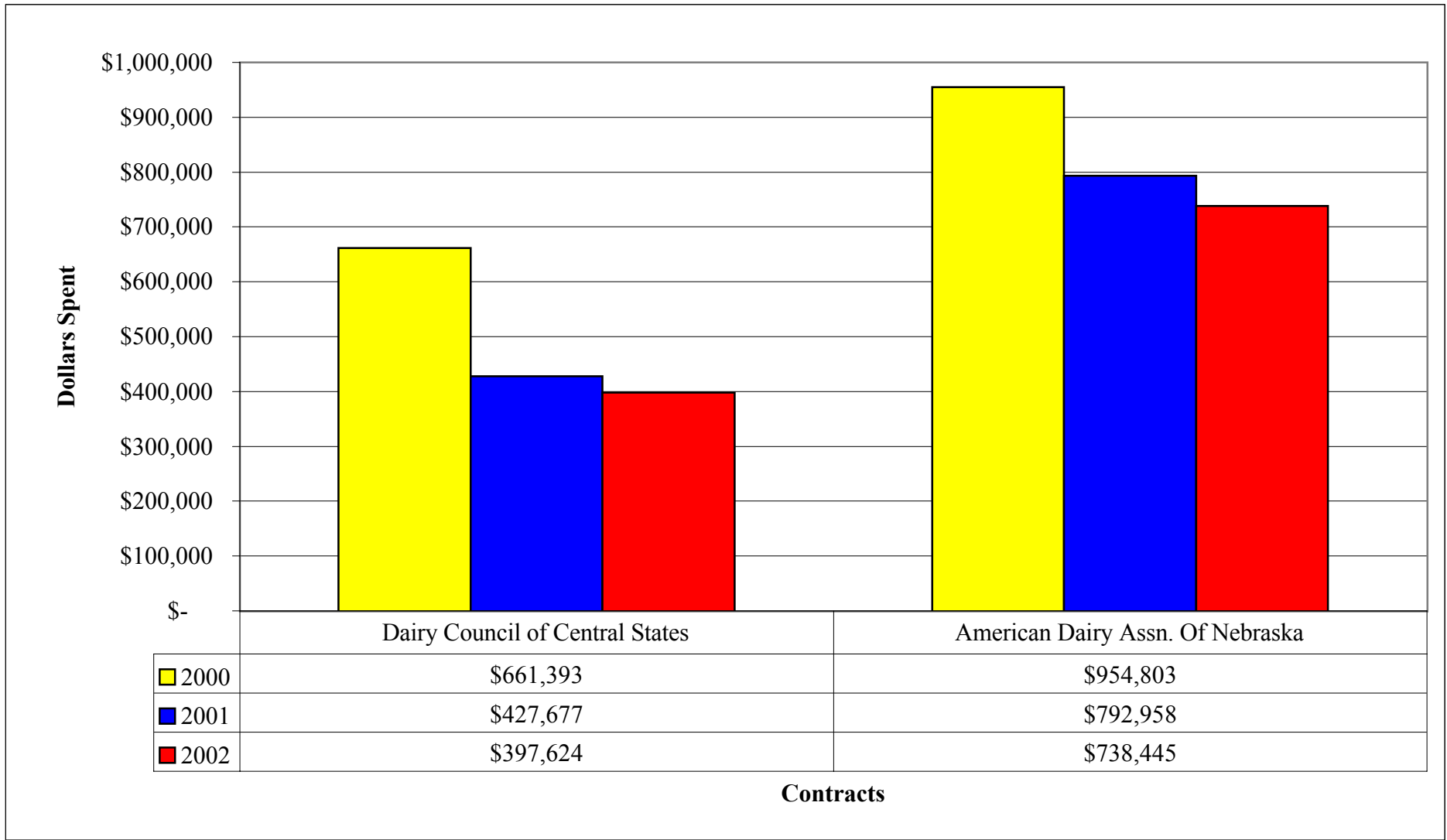
NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

CHECKOFF REVENUE TREND

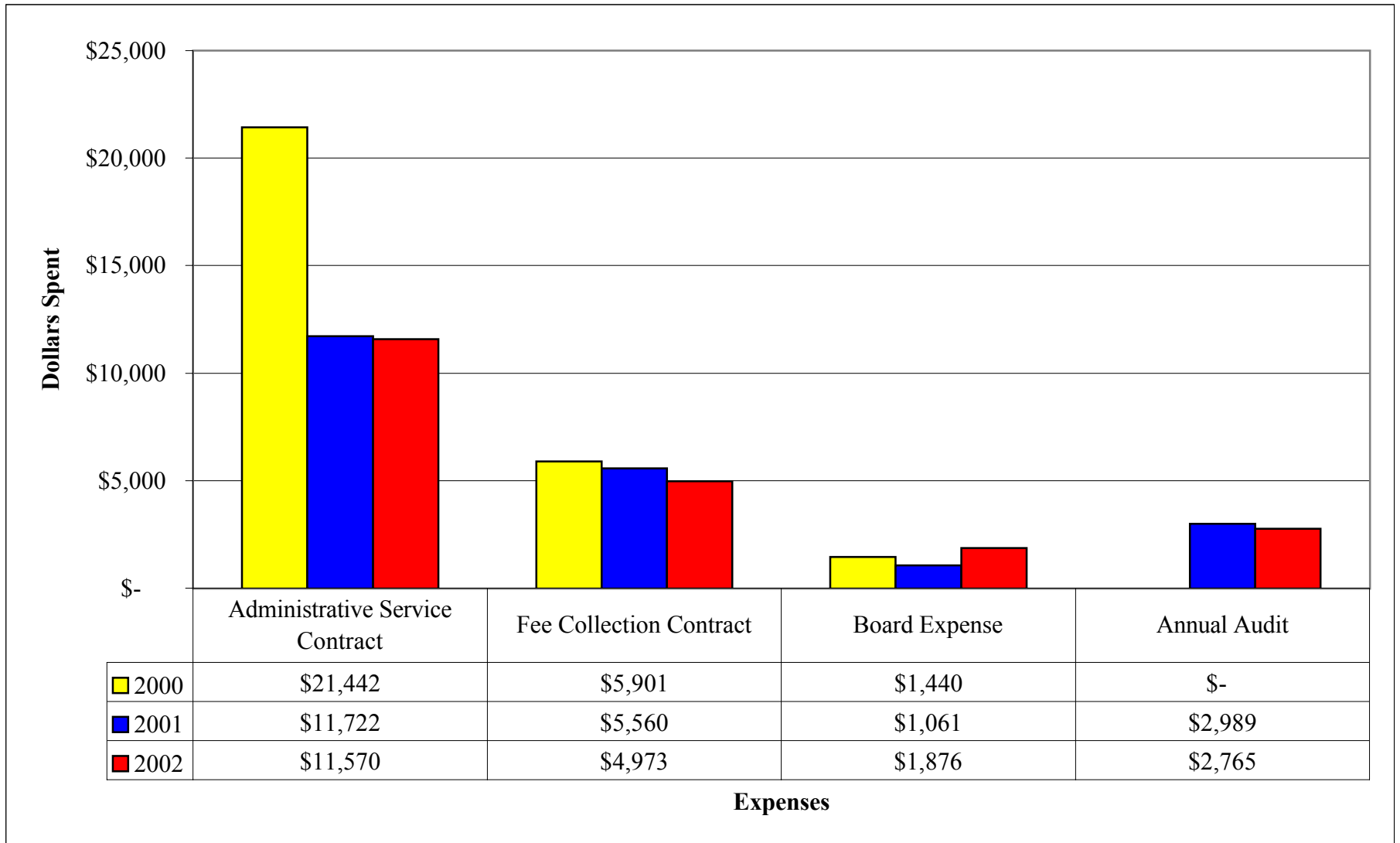
For the Fiscal Years Ended June 30, 2000, 2001, and 2002



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR
 For the Fiscal Years Ended June 30, 2000, 2001, and 2002



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR
 For the Fiscal Years Ended June 30, 2000, 2001, and 2002



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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**

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We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2002, and have issued our report thereon dated September 3, 2002. 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 fund of the Nebraska Dairy Industry Development Board, and was qualified as the financial statements do not include the financial data of the American Dairy Association of Nebraska and the Dairy Council of Nebraska, Inc., component units 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.

September 3, 2002



Assistant Deputy Auditor