

**AUDIT REPORT  
OF THE  
NEBRASKA LIQUOR CONTROL COMMISSION**

**JULY 1, 2001 THROUGH JUNE 30, 2002**

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# NEBRASKA LIQUOR CONTROL COMMISSION

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# NEBRASKA LIQUOR CONTROL COMMISSION

## **BACKGROUND**

The Liquor Control Commission, created by the Liquor Control Act, regulates and controls all phases of the manufacture, sale, distribution, and traffic of alcoholic beverages in the State. The Commission is responsible for the licensing of all parties active in the liquor industry and the collection of revenue generated from such licensure. The Commission is also responsible for hearing complaints regarding licensees. This hearing of complaints may result in the liquor license being suspended, cancelled, or revoked. The Commission is also responsible for the collection of excise taxes on alcoholic beverages, which are remitted to the State Treasurer.

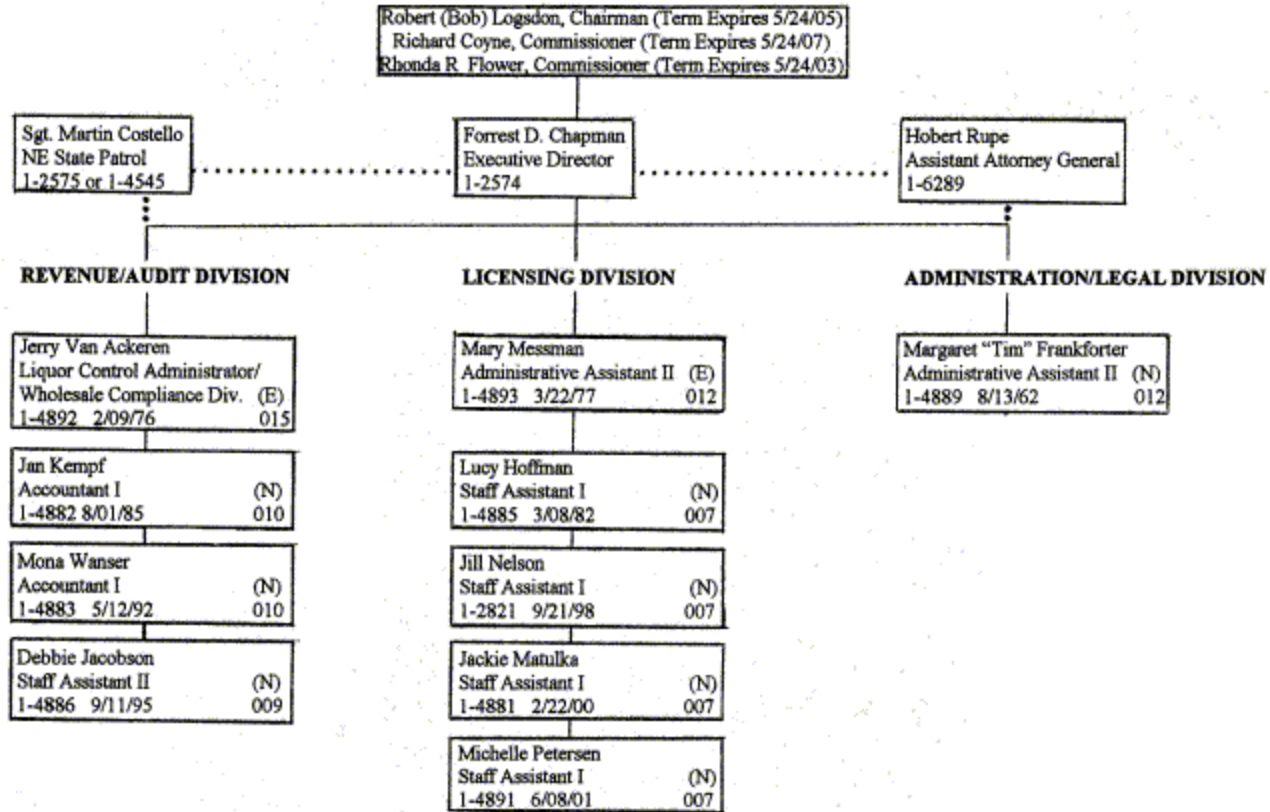
The Commission is composed of three members, who are appointed for a term of six years by the Governor with approval by the Legislature. The Commission meets at least once a month. Each member is paid an annual salary not to exceed \$12,500 and is reimbursed for expenses.

## **MISSION STATEMENT**

The mission of the Nebraska Liquor Control Commission is to regulate and control the alcoholic beverage industry and beverages within and into the State of Nebraska in an efficient, effective manner in order to promote the public health, safety, and welfare.

NEBRASKA LIQUOR CONTROL COMMISSION

ORGANIZATIONAL CHART



# NEBRASKA LIQUOR CONTROL COMMISSION

## SUMMARY OF COMMENTS

During our audit of the Nebraska Liquor Control Commission, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

- 1. Penalties:** Neb. Rev. Stat. Section 53-1,104 R.S.Supp., 2002 requires the Commission to remit penalties collected to the State Treasurer for credit to the temporary school fund. However, this statute appears to be in conflict with the Nebraska Constitution, Article VII, Section 5, which requires such penalties to be appropriated for the use and support of the common schools in the respective subdivision where the penalties were levied. The Commission collected \$376,650 in penalties, which were credited instead to the temporary school fund.
- 2. Documentation to Support Agreement with the University of Nebraska:** The Commission paid \$25,000 to the University of Nebraska for the development of a web-based training program. There was no written agreement between the Commission and the University of Nebraska for these services.
- 3. Registration Costs:** There was not adequate documentation to support the fee amount charged for the registration of licenses. The fee was set by statute. Administrative and other costs related to the processing of license applications were not included in the fee.
- 4. Travel Expense Reimbursements:** There were instances of inadequate documentation for reimbursement of expenses.

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

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

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

# NEBRASKA LIQUOR CONTROL COMMISSION

## COMMENTS AND RECOMMENDATIONS

### 1. Penalties

The Nebraska Constitution Article VII, Section 5 (1) states, “. . . all fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . .”

Neb. Rev. Stat. Section 53-1,104 R.S.Supp., 2002 refers to violations by liquor licensees and the penalties that may be imposed by the Commission related to the violations. The statute states, “All funds received under this section shall be remitted to the State Treasurer for credit to the temporary school fund.”

The State Statute appears to be in conflict with the State Constitution. However, the Commission followed the language provided in the statute for the deposit of penalties it assessed and collected. The Commission collected \$376,650 in penalties during the fiscal year ended June 30, 2002.

Legislation was introduced in January 2003 that would appear to resolve this apparent conflict. The bill is LB 686.

We recommend the Commission consult with the Legislature, the State Treasurer, and the Attorney General, as appropriate, to resolve the apparent conflict between the State Statute and the State Constitution.

*Commission's Response: As we understand it, this is primarily an issue between your office and the State Treasurer and that the Treasurer would be responsible for disbursing the funds to the local school districts rather than to the temporary school fund. We will gladly assist the Treasurer should they decide to follow your recommendation or if current statutes are changed.*

### 2. Documentation to Support Agreement with the University of Nebraska

Sound accounting practice requires the use of written contracts to support payments made by the Commission. The contracts should include a clear description of the services to be provided, the total cost or rate to be paid for the services, and the specific timeframe over which the work is to be completed.

The Commission made a payment to the University of Nebraska for the development of a web-based training program to be used by licensees. The Commission was billed and paid \$25,000 to the University for the services. There was no written contract between the Commission and University that defined the terms of the agreement.

# NEBRASKA LIQUOR CONTROL COMMISSION

## COMMENTS AND RECOMMENDATIONS

### 2. Documentation to Support Agreement with the University of Nebraska (Concluded)

Without a written contract specifying the services to be provided, the total cost or rate to be paid for the services, and the timeframe of the contract, there is an increased risk the Commission will not receive the services they intended to receive, will pay more than intended for the services, or will not receive the services when intended.

We recommend the Commission implement procedures to ensure all agreements for services provided to the Commission have written agreements. The written agreements should contain specific terms including the services to be provided, cost of services, and timeframes.

*Commission's Response: We agree with your comment and will in future use written contracts.*

### 3. Registration Costs

When a registration fee is charged, good fiscal policy requires the Commission to evaluate the appropriateness of the fee amount in relation to all costs incurred by the Commission to process the application.

The Commission did not have adequate documentation to support the amount charged for its registration fee. The \$45 registration fee charged by the Commission is set by statute. However, the cost related to processing the application was not a factor in the determination of the registration fee. The Commission collected \$232,865 for registration fees during the fiscal year ended June 30, 2002.

Without adequate procedures and documentation to determine the Commission's costs, there is an increased risk the fee charged, as set in statute, may not be adequate to cover all of the Commission's costs to process the applications.

We recommend the Commission implement procedures to periodically review and document the costs involved in processing applications and, if necessary, make recommendations for adjustments to the registration fee.

*Commission's Response: As we understand it, we are requested to do an audit of our administration costs pertaining to applications/renewals and then notify the Legislature if the audit reveals that our costs are higher than current fee. We agree and will do.*

# NEBRASKA LIQUOR CONTROL COMMISSION

## COMMENTS AND RECOMMENDATIONS

### 4. Travel Expense Reimbursements

The Nebraska Accounting System (NAS) Manual, Concept 005, Travel Expense Policies, describes the State's accountable plan. It states, "adequate accounting generally requires the use of a documentation record such as an account book, expense diary, or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost." It further states that agencies are responsible to see that all submitted claims for meals are adequately substantiated, and unsubstantiated meals should not be reimbursed. The Internal Revenue Service requires employees to substantiate the cost of travel, lodging, meals, and other expenses.

Three Commissioner or employee reimbursement documents tested did not contain adequate documentation for meal expenses. Meals totaling \$216 were reimbursed to the three Commissioners or employees without meal logs or itemized receipts to support the cost of the meals.

Amounts paid to employees under a nonaccountable plan must be included in the employee's taxable income. The risk of loss or misuse of State funds also increases when meal expenses are not adequately substantiated.

We recommend the Commission implement procedures to ensure the costs of meals are adequately supported by meal logs or detailed receipts in accordance with the State's accountable plan.

*Commission's Response: We agree and will implement a procedure to ensure the costs of meals are adequately supported by meal logs or detailed receipts.*



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## NEBRASKA LIQUOR CONTROL COMMISSION

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### INDEPENDENT AUDITORS' REPORT

**Don Dunlap, CPA**  
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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Liquor Control Commission (Commission), as of and for the year ended June 30, 2002, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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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.

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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.

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Also, as discussed in Note 1, the financial statements of the Nebraska Liquor Control Commission, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major

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fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Liquor Control Commission. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Liquor Control Commission, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2003, on our consideration of the Nebraska Liquor Control Commission'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 Commission's basic financial statements. The 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 schedule of Liquor Tax Revenue, except for that portion marked "unaudited," on which we express no opinion, 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 basic financial statements taken as a whole. The schedule of Liquor Licenses on Record, 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.

January 23, 2003



Assistant Deputy Auditor

## NEBRASKA LIQUOR CONTROL COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Liquor Control Commission's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Liquor Control Commission for the fiscal year ended June 30, 2002. Please read it in conjunction with the Commission'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 Liquor Control Commission's basic financial statements. The Commission'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 Commission's overall financial status. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. The Commission'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 Commission. Nonfinancial factors also need to be considered to assess the overall health of the Commission. Agency-wide financial statements divide the Commission into three kinds of activities:

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

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

Component units – No component units for the Commission were identified.

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

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

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Commission currently has no proprietary funds.

## NEBRASKA LIQUOR CONTROL COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiduciary fund statements provide information about financial relationships in which the Commission acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Commission collected fines and penalties for deposit to the Temporary School Fund, which is considered an agency fund. The Temporary School Fund is reported as part of the Nebraska Department of Education and is not included in the Commission's financial statements.

**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 schedules of Liquor Tax Revenue and Liquor Licenses on Record. This information is provided to address certain specific needs of various users of the report.

#### **BASIS OF ACCOUNTING**

The Nebraska Liquor Control Commission'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.

#### **FINANCIAL ANALYSIS OF THE COMMISSION AS WHOLE**

##### **Changes in Net Assets**

For the fiscal year ended June 30, 2002, net assets of the Commission (current assets resulting from cash basis transactions) decreased 20 percent.

NEBRASKA LIQUOR CONTROL COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities		% Change
	2002	2001	
Restricted for Regulation of Business & Professions	\$ 65,039	\$ 81,964	-21%
Unrestricted	4,391	4,391	0%
Total Net Assets	<u>\$ 69,430</u>	<u>\$ 86,355</u>	<u>-20%</u>

**Governmental Activities**

Receipts for the Commission's governmental activities increased 2 percent, while expenses did not change.

**ENTITIES CHANGES IN NET ASSETS**

	Governmental Activities		% Change
	2002	2001	
<b>RECEIPTS:</b>			
Program Receipts:			
Charges for Services	\$ 472,879	\$ 411,108	15%
General Receipts:			
Appropriations	756,828	768,067	-1%
Alcohol & Beer Taxes	<u>17,535,915</u>	<u>17,291,983</u>	<u>1%</u>
Total Receipts	<u>18,765,622</u>	<u>18,471,158</u>	<u>2%</u>
<b>DISBURSEMENTS:</b>			
General Government	756,828	768,067	-1%
Regulation of Business & Professions	<u>55,138</u>	<u>46,350</u>	<u>19%</u>
Total Disbursements	<u>811,966</u>	<u>814,417</u>	<u>0%</u>
Excess (Deficiency) before Other Financing Sources and Uses	17,953,656	17,656,741	2%
OTHER FINANCING SOURCES & USES	<u>(17,970,581)</u>	<u>(17,661,778)</u>	<u>-2%</u>
Increase (Decrease) in Net Assets	(16,925)	(5,037)	-236%
Beginning Net Assets July 1	<u>86,355</u>	<u>91,392</u>	<u>-6%</u>
Ending Net Assets June 30	<u>\$ 69,430</u>	<u>\$ 86,355</u>	<u>-20%</u>

NEBRASKA LIQUOR CONTROL COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

**FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS**

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

**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 Liquor Control Commission.

NEBRASKA LIQUOR CONTROL COMMISSION  
**STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS**  
 June 30, 2002

	GOVERNMENTAL ACTIVITIES <b>TOTAL</b> (Memorandum Only)
<b>Assets</b>	
Cash in State Treasury	\$ 65,039
Deposit with Vendors	4,391
	4,391
Total Assets	\$ 69,430
<b>Net Assets</b>	
Restricted for:	
Regulation of Business & Professions	\$ 65,039
Unrestricted	4,391
	4,391
Total Net Assets	\$ 69,430

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

NEBRASKA LIQUOR CONTROL COMMISSION  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
 June 30, 2002

	<b>Governmental Activities TOTAL (Memorandum Only)</b>	<u>FUNCTION</u>	
		<u>General Government</u>	<u>Regulation of Business and Professions</u>
Disbursements:			
Personal Services	\$ 569,589	\$ 569,589	\$ -
Operating	217,640	162,502	55,138
Travel	14,092	14,092	-
Capital Asset Purchases	10,645	10,645	-
Total Disbursements	<u>811,966</u>	<u>756,828</u>	<u>55,138</u>
Program Receipts:			
Charges for Services	<u>472,879</u>	<u>434,666</u>	<u>38,213</u>
Net Program Receipts (Disbursements)	<u>(339,087)</u>	<u>(322,162)</u>	<u>(16,925)</u>
General Receipts and Other Financing Sources & Uses:			
Appropriations	756,828		
Liquor and Beer Taxes	17,535,915		
Other Financing Sources & (Uses)	<u>(17,970,581)</u>		
Total General Receipts and Other Financing Sources & (Uses)	<u>322,162</u>		
Change in Net Assets	(16,925)		
Net Assets July 1, 2001	<u>86,355</u>		
Net Assets June 30, 2002	<u><u>\$ 69,430</u></u>		

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



NEBRASKA LIQUOR CONTROL COMMISSION  
**STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
June 30, 2002

	Major Funds		Other Funds	<b>Total</b>
	General Fund 1000	Rule & Regulation Cash Fund 2350	Winery & Grape Production Promotion Fund 2197	<b>Governmental Funds (Memorandum Only)</b>
<b>Assets</b>				
Cash in State Treasury	\$ -	\$ 65,039	\$ -	\$ 65,039
Deposit with Vendors	4,391	-	-	4,391
Total Assets	\$ 4,391	\$ 65,039	\$ -	\$ 69,430
<b>Fund Balances</b>				
Reserved for:				
Postage	\$ 4,391	\$ -	\$ -	\$ 4,391
Unreserved	-	65,039	-	65,039
Total Fund Balances	\$ 4,391	\$ 65,039	\$ -	\$ 69,430

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

NEBRASKA LIQUOR CONTROL COMMISSION  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Fiscal Year Ended June 30, 2002

	Major Funds		Other Funds	<b>Total Governmental Funds (Memorandum Only)</b>
	General Fund 1000	Rule & Regulation Cash Fund 2350	Winery & Grape Production Promotion Fund 2197	
<b>RECEIPTS:</b>				
Appropriations	\$ 756,828	\$ -	\$ -	\$ 756,828
Taxes	17,534,393	-	1,522	17,535,915
Sales & Charges	432,226	34,784	-	467,010
Miscellaneous:				
Investment Interest	-	3,429	-	3,429
Other Fines, Forfeits & Penalties	2,440	-	-	2,440
<b>TOTAL RECEIPTS</b>	<b>18,725,887</b>	<b>38,213</b>	<b>1,522</b>	<b>18,765,622</b>
<b>DISBURSEMENTS BY FUNCTION:</b>				
General Government	756,828	-	-	756,828
Regulation of Business and Professions	-	55,138	-	55,138
<b>TOTAL DISBURSEMENTS</b>	<b>756,828</b>	<b>55,138</b>	<b>-</b>	<b>811,966</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	17,969,059	(16,925)	1,522	17,953,656
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	660	-	-	660
Deposits to General Fund	(17,969,719)	-	-	(17,969,719)
Deposits to Common Fund	-	-	(1,522)	(1,522)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(17,969,059)</b>	<b>-</b>	<b>(1,522)</b>	<b>(17,970,581)</b>
Net Change in Fund Balances	-	(16,925)	-	(16,925)
FUND BALANCES, JULY 1, 2001	4,391	81,964	-	86,355
FUND BALANCES, JUNE 30, 2002	<b>\$ 4,391</b>	<b>\$ 65,039</b>	<b>\$ -</b>	<b>\$ 69,430</b>

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

# NEBRASKA LIQUOR CONTROL COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

### 1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Liquor Control Commission are on the basis of accounting as described in the Nebraska Accounting System Manual.

#### A. Reporting Entity

The Nebraska Liquor Control Commission (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The financial statements include all funds of the Commission. The Commission has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Commission, or the significance of their relationship with the Commission 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 Commission 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 Commission.

These financial statements present the Nebraska Liquor Control Commission. No component units were identified. The Nebraska Liquor Control Commission is part of the primary government for the State of Nebraska's reporting entity.

#### 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 Commission 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 Commission, except for fiduciary activities. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Commission 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

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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. The Commission reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent; and taxes, which are received on the sale of beer, liquor and spirits, light wines, and fortified wines. The taxes are collected by the Commission and deposited to the General Fund.

**Fund Financial Statements.** The fund financial statements provide information about the Commission's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Commission uses only the governmental fund category. The Commission collects fines and penalties for deposit to the Temporary School Fund, which is a fiduciary fund. However, the Temporary School Fund is reported as part of the Nebraska Department of Education, and no fiduciary funds are reported by the Commission. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Commission reports the following major governmental funds:

**General Fund.** This is the Commission's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

**Rule and Regulation Cash Fund.** This fund accounts for receipts generated by license fees and other specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

The Commission reports the following other fund:

**Winery and Grape Production Promotion Fund.** This fund accounts for funds collected for promotional purposes and is transferred to a common fund with the Department of Agriculture.

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 Commission are maintained and the Agency-wide financial statements were reported on the basis of

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Commission. This differs from governmental generally accepted accounting principles (GAAP), which requires 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 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 Commission were designated for investment during fiscal year 2002.

**Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**Capital Assets.** Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

**Compensated Absences.** All permanent employees working for the Commission earn sick and annual leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

**Restricted Net Assets.** When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then the unrestricted resources as they are needed. 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 53-117.06 restricts the net assets of the Rule and Regulation Cash Fund to be used for costs incurred in producing and distributing materials related to the Liquor Control Act and keg registrations.

**E. Fund Balance Reservations**

Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

2. **Totals**

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

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments**

**Risk Management.** The Commission 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 Commission, 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 Liquor Control Commission's financial statements.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Commission matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$19,048 and the Commission contributed \$29,714.



NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Temporary School Fund**

The Commission collects money for packaging fees, fines, forfeits, and penalties and deposits the money to the Temporary School Fund. The Temporary School Fund is reflected in the Nebraska Department of Education's financial statements and is not reported on the Commission's financial statements. The amount collected and deposited to the Temporary School Fund for the fiscal year ended June 30, 2002 was \$501,988.

6. **Full Accountability of the General Fund**

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

<b>General Fund</b>	
Beginning (Reappropriated) Balance July 1, 2001	\$ 18,468
New Appropriations	771,432
Total Appropriations	<u>789,900</u>
Disbursements	<u>(756,828)</u>
Ending (Appropriations) Balance June 30, 2002	<u>\$ 33,072</u>

7. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Commission implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Commission's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Commission were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Commission.

NEBRASKA LIQUOR CONTROL COMMISSION  
**SUPPLEMENTARY INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2002

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
Licensing and Regulation	\$ 822,043	\$ 789,900	\$ 756,828	\$ 33,072
TOTAL DISBURSEMENTS	<u>\$ 822,043</u>	<u>\$ 789,900</u>	<u>\$ 756,828</u>	<u>\$ 33,072</u>

See Notes to Supplementary Information

NEBRASKA LIQUOR CONTROL COMMISSION  
**SUPPLEMENTARY INFORMATION**  
**MAJOR SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2002

Fund 2350 - Rule and Regulation Cash Fund				
PROGRAM:	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Licensing and Regulation	\$ 55,138	\$ 55,138	\$ 55,138	\$ -
TOTAL DISBURSEMENTS	\$ 55,138	\$ 55,138	\$ 55,138	\$ -

See Notes to Supplementary Information.

# NEBRASKA LIQUOR CONTROL COMMISSION

## NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

### BUDGETARY COMPARISON SCHEDULES

#### 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 Commission's legally adopted annual budget amount. The Commission's budgetary comparison schedules include the general fund and Rule and Regulation Cash Fund.

GAAP also requires the budgetary comparison schedules 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 Commission 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 schedules only report 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 LIQUOR CONTROL COMMISSION

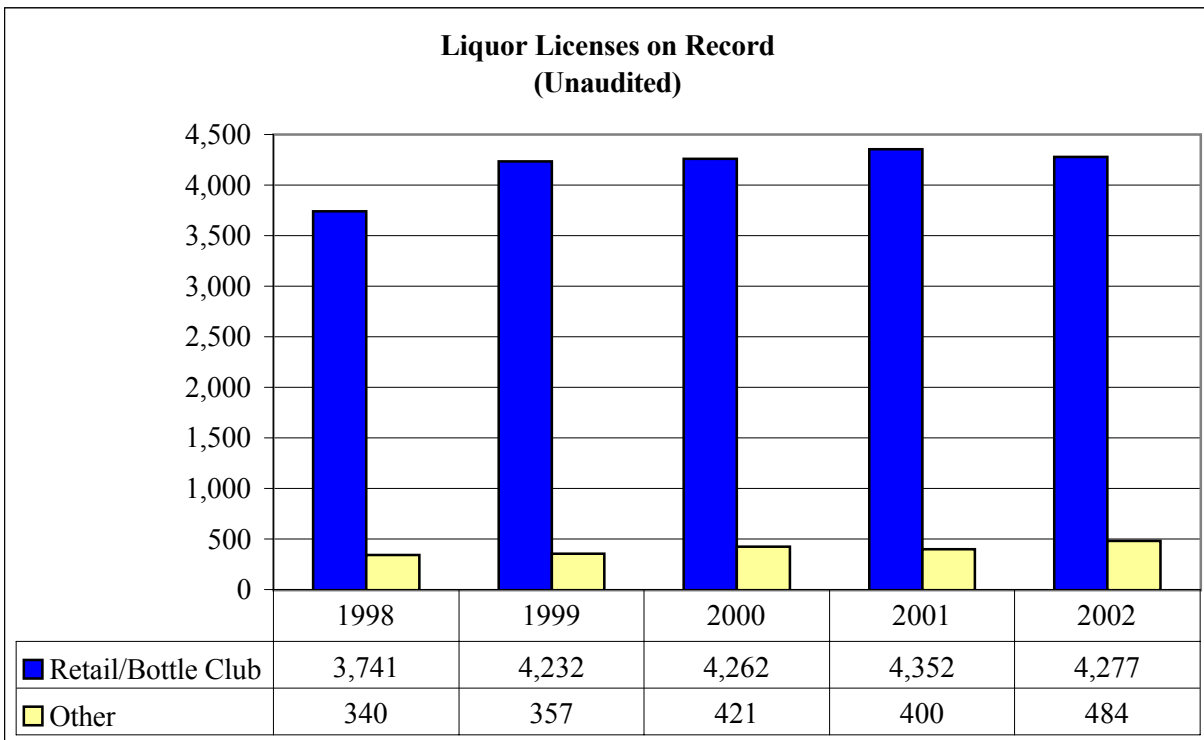
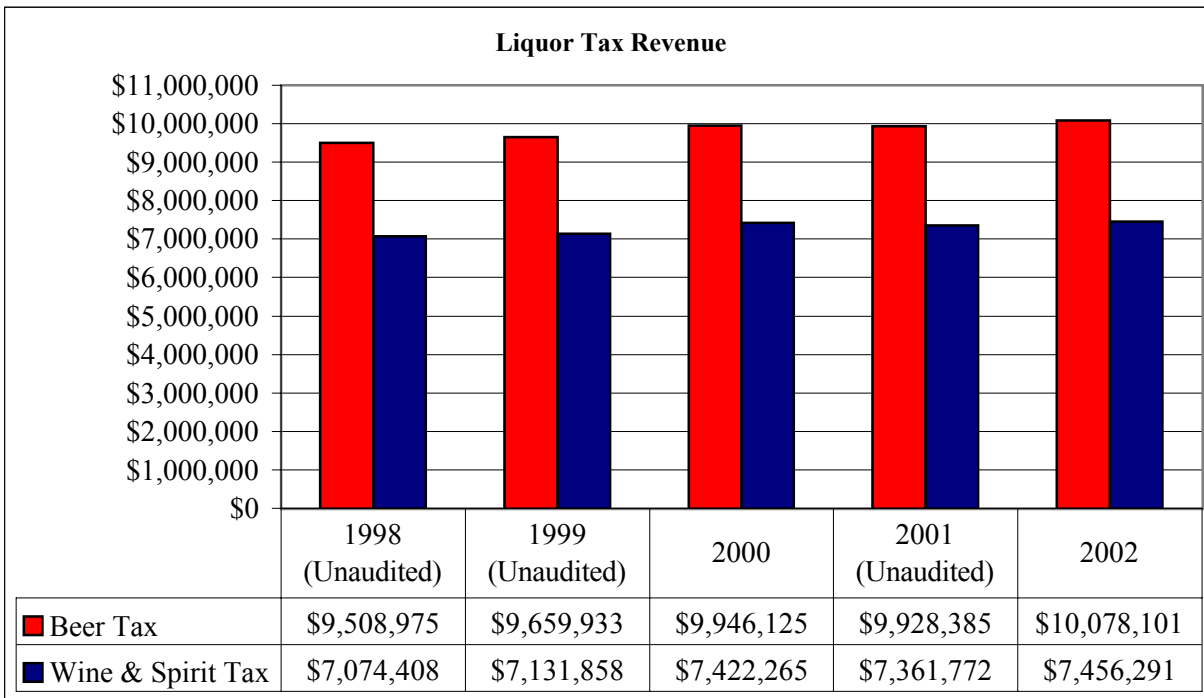
**NOTES TO SUPPLEMENTARY INFORMATION**

(Continued)

All State budgetary disbursements for the general fund and the Commission's Rule and Regulation Cash 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.

**NEBRASKA LIQUOR CONTROL COMMISSION**  
**LIQUOR TAX REVENUE AND LIQUOR LICENSES ON RECORD**  
For the Fiscal Years Ended June 30, 1998, 1999, 2000, 2001, and 2002



**Note:** The "Other" Category includes Shippers, Distributors, Brew Pub, and Miscellaneous licenses.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA LIQUOR CONTROL COMMISSION 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 Liquor Control Commission as of and for the year ended June 30, 2002, and have issued our report thereon dated January 23, 2003. 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 Liquor Control Commission. 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 Liquor Control Commission's financial statements are 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*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Liquor Control Commission in the Comments Section of this report as Comment Number 1 (Penalties), Comment Number 3 (Registration Costs), and Comment Number 4 (Travel Expense Reimbursements).

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Liquor Control Commission'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. However, we noted another matter involving the internal control over financial reporting that we have reported to management of the Nebraska Liquor Control Commission in the Comments Section of this report as Comment Number 2 (Documentation to Support Agreement with the University of Nebraska).

This report is intended solely for the information and use of the Commission, 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.

January 23, 2003



Assistant Deputy Auditor