

**AUDIT REPORT  
OF THE  
NEBRASKA ETHANOL BOARD**

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

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NEBRASKA ETHANOL BOARD

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# NEBRASKA ETHANOL BOARD

## BACKGROUND

The Nebraska Ethanol Board was created in 1993. The Board consists of seven members appointed by the Governor with the approval of the majority of the Legislature. Four members shall actually be involved in farming in the State, one in general farming and one each in the production of corn, wheat, and sorghum. One member shall be actively engaged in business in the State. One member shall represent labor interests in the State. One member shall represent Nebraska petroleum marketers in the State.

The Board shall retain the services of a full-time administrator to be appointed by the Board. The administrator shall hold office at the pleasure of the Board.

The Board administers the Agricultural Alcohol Fuel Tax Fund. The primary source of revenue to this fund is generated from 1.25 cents per gallon check-off on non-highway fuel tax refunds. The fund shall be used for the following purposes:

- Establish, with cooperation of private industry, procedures and processes necessary to the manufacture and marketing of fuel containing agricultural ethyl alcohol;
- Establish procedures for entering blended fuel into the marketplace by private enterprise;
- Analyze the marketing process and testing of marketing procedures to assure acceptance in the private marketplace of blended fuel and byproducts resulting from the manufacturing process;
- Cooperate with private industry to establish privately owned agricultural ethyl alcohol manufacturing plants in Nebraska to supply demand for blended fuel;
- Sponsor research and development of industrial and commercial uses for agricultural ethyl alcohol and for byproducts resulting from the manufacturing process;
- Promote State and national air quality improvement programs and influence federal legislation that requires or encourages the use of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives;
- Promote the use of renewable agricultural ethyl alcohol as a partial replacement for imported oil and for the energy and economic security of the nation;
- Participate in development and passage of national legislation dealing with research, development, and promotion of United States production of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives, access to potential markets, imports of foreign-produced fuel, and related concerns that may develop in the future; and

## NEBRASKA ETHANOL BOARD

### **BACKGROUND**

(Concluded)

- As the Board may otherwise direct to fulfill the goals set forth under the Ethanol Development Act, including monitoring contracts for existing ethanol program commitments consummated pursuant to the law in existence prior to September 1, 1993, and solicitation of federal funds.

The Board also pays tax credits earned by ethanol producers on each gallon of ethanol produced in the State from the Ethanol Production Incentive Cash Fund. The Department of Revenue notifies the State Treasurer at the end of each month of the amount of motor fuel tax that was not collected in the preceding month due to the credits described. The State Treasurer shall transfer from the Ethanol Production Incentive Cash Fund to the Highway Trust Fund an amount equal to such credits.

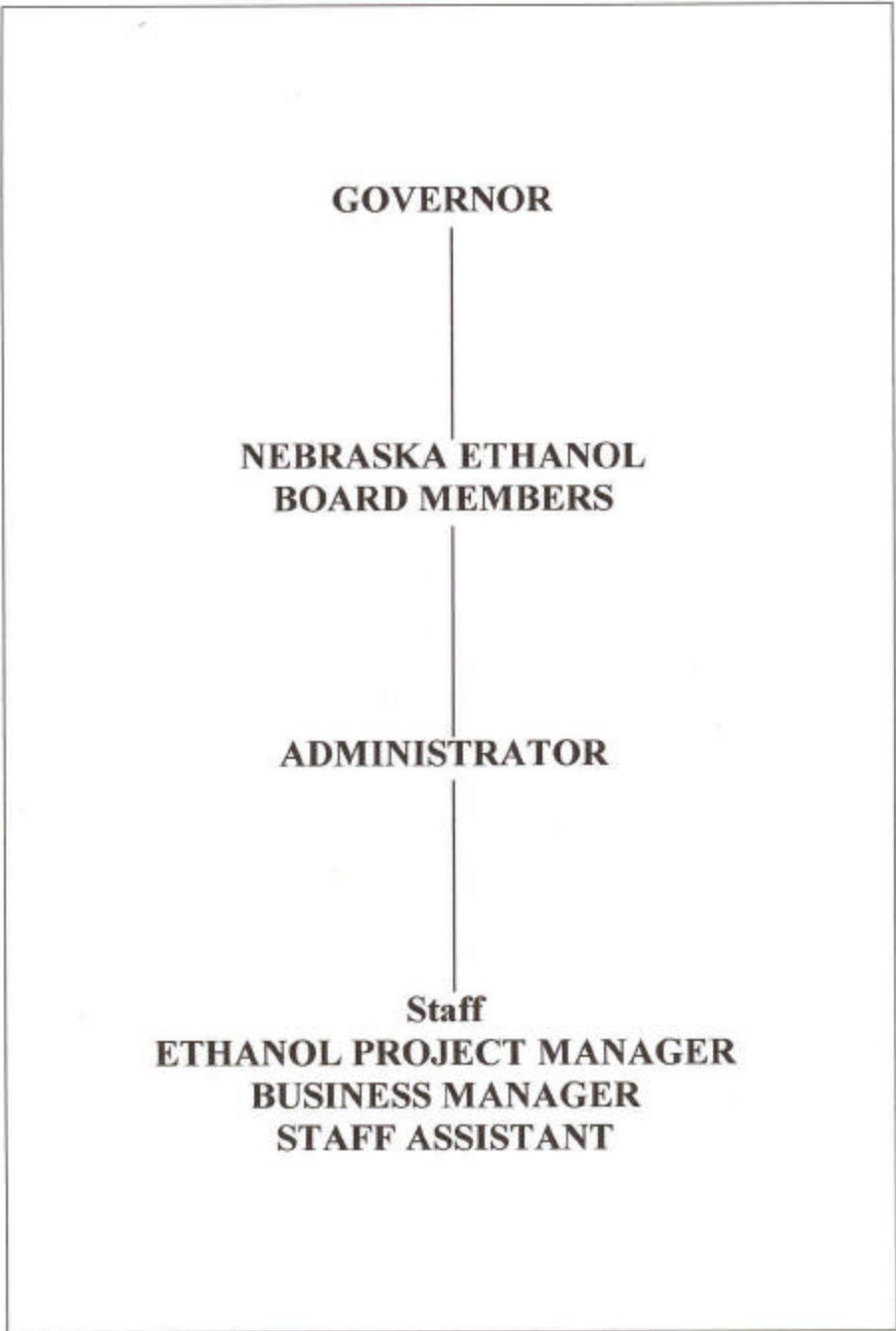
### **MISSION STATEMENT**

The mission of the Nebraska Ethanol Board is to:

- Establish procedures and processes necessary to the manufacture and marketing of fuel ethanol.
- Analyze the marketing process and test procedures to assure acceptance in the marketplace.
- Cooperate with industry to establish privately owned agricultural ethyl alcohol plants.
- Sponsor research and development of industrial and commercial uses for ethanol and its byproducts.
- Promote State and national air quality improvement programs and influence legislation that encourages the use of oxygenated fuels.
- Promote the use of renewable ethanol as a partial replacement for imported oil to ensure the energy security of the country.

NEBRASKA ETHANOL BOARD

ORGANIZATIONAL CHART



## NEBRASKA ETHANOL BOARD

### SUMMARY OF COMMENTS

During our audit of the Nebraska Ethanol Board, 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. ***Federal Program Disbursements:*** The Board disbursed over \$100,000 in federal funds and did not maintain documentation of the applicable federal program compliance requirements.
2. ***Inadequate Documentation:*** The Board disbursed \$15,000 in federal funds to a non-profit organization without a signed agreement to indicate how the funds were to be used.
3. ***Travel Expense Reimbursements:*** One of four expense reimbursement requests tested was not in accordance with the State's accountable plan, as the meals were only totaled by day. Additionally, we noted one lodging reimbursement for an employee who was less than 60 miles from his workplace. There was no documentation to indicate the reason this lodging was necessary.

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 Board 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 ETHANOL BOARD

## COMMENTS AND RECOMMENDATIONS

### 1. Federal Program Disbursements

Good internal control requires procedures and records to ensure the Board is aware of and understands the federal program compliance requirements for any federal money disbursed by the Board. Federal program requirements can list uses and restrictions of such funds, as well as other federal compliance requirements related to specific grants the Board should consider when disbursing federal funds.

The Board disbursed over \$100,000 in federal funds during the fiscal year and did not maintain the federal program information for the funds. Therefore, the Board could not determine or document whether they were in compliance with the federal program compliance requirements for the funds they distributed.

Without adequate procedures and records to document federal program requirements, there is an increased risk the Board could provide federal funds that are not in compliance with the federal program compliance requirements. This could result in federal questioned costs.

We recommend the Board implement procedures to ensure adequate documentation and the understanding of federal program compliance requirements before the distribution of federal funds.

*Board's Response: The draft report notes that the Board disbursed over \$100,000 in federal funds during the audit period. The report neglects the fact that the Nebraska Ethanol Board mounted an aggressive campaign to solicit such funds as a means of complementing the cash fund revenue on which the agency relies for all programs and operations. In the face of declining revenues, agency staff commenced to advance a series of unsolicited proposals to federal agencies. Several of these proposals were approved, thereby providing a source of revenue that was directly applied to projects approved by the Board. The supplemental funds from federal agencies allowed the Board to expand the scope of activities that would have otherwise been diminished by a decline in the Agricultural Alcohol Fuel Tax Fund.*

*Without exception, the Board reviewed the actions of agency staff and in all cases approved the solicitation, acceptance and subsequent expenditure of federal funds. In many cases federal funds were transmitted to the Board via the Nebraska Energy Office. By statute, the Energy Office serves as an advisor to the Board. The Energy Office also serves as the fiscal agent for several federal grant programs. The Administrator of the Nebraska Ethanol Board works with the Energy Office on a daily basis and has a clear understanding of applicable federal program requirements governing federal funds received by the Board. When asked for details of the program requirements, the audit staff received explicit information about the source of program requirements and the personnel who maintained such requirements. This information was subsequently confirmed by state and federal officials who facilitated the grants. The Board rejects the contention that documentation was not maintained. Documentation was readily available and the sources of same were immediately provided upon request of the audit team.*

# NEBRASKA ETHANOL BOARD

## COMMENTS AND RECOMMENDATIONS

### 1. Federal Program Disbursements (Concluded)

*Board's Response, Concluded:*

*Unsolicited grant proposals developed, proposed and received by the Board were successful because they clearly met federal program goals. Additional awards made by federal agencies were on the basis of grant performance and compliance by the Board. This productive working relationship continues because of an excellent working relationship between state and federal agencies. The process currently employed by the state and federal agencies reduces bureaucracy while providing adequate protection, documentation and oversight of grants received and expended by the Board.*

**Auditors' Response:** The information about the federal program requirements were requested and obtained from the Nebraska Energy Office. The staff at the Ethanol Board could not provide the information requested, as it was not available at the Ethanol Board. Without knowledge of the federal program under which the money was received, it is unlikely the Ethanol Board staff would know the compliance requirements of those funds. Our recommendation to ensure adequate documentation and an understanding of the federal program requirements was made for those reasons.

### 2. Inadequate Documentation

Good internal control requires adequate documentation to support all expenses and to ensure the funds are used as intended.

The Board received a \$15,000 federal grant from the U.S. Department of Energy through the National Renewable Energy Laboratory. The grant was for the support of the Power Crops for the Americas Conference in Miami, Florida. The Board disbursed the \$15,000 to the Clean Fuels Foundation in support of the conference upon receipt of an invoice. However, there was no written agreement between the Board and the Clean Fuels Foundation to ensure the funds were used to support the conference as intended.

There is an increased risk funds will not be used as intended by the Board and in accordance with federal program requirements without an agreement to support the payment of the \$15,000.

We recommend the Board implement procedures to obtain adequate documentation for all expenditures to ensure the funds are spent as intended by the Board and in accordance with federal program requirements.

*Board's Response:* The audit report notes that the Board disbursed \$15,000 in federal funds to a non-profit organization without a signed agreement. This finding ignores the clear trail of documentation provided with regard to the origin, intent, application and oversight of the grant.



## NEBRASKA ETHANOL BOARD

### COMMENTS AND RECOMMENDATIONS

#### 2. Inadequate Documentation (Concluded)

*Board's Response, Concluded:*

*Again, the Board took proactive steps to supplement agency funds with federal funds. The federal agency grant approval officer was disclosed to the audit team and contact was initiated with that person. That federal employee took an active role in the conference for which the funds were expended. Other federal officials also attended and participated in the conference proceedings. A clear trail of authorization for the acceptance and expenditure of the federal funds was documented in agency records. Printed programs clearly documenting the participation of the parties was provided to the audit team. Minutes of the non-profit foundation were provided. The minutes clearly reflected the participation of foundation members in the educational conference. The Administrator of the Nebraska Ethanol Board serves on the board of directors of the foundation and participated in the foundation meeting held in conjunction with the conference.*

*The Board rejects the suggestion that documentation regarding the intent of the grant was not available. The Board disagrees with the implication that adequate documentation and oversight regarding application of the grant funds were unavailable. All parties representing state and federal agencies were clear on the application of grant funds. Federal agency representatives attending the conference were able to document the use of funds. Federal agency personnel responsible for awarding the grant and overseeing implementation of the funds were contacted by the audit team at the suggestion of the Board. The invoice provided for review by the audit team clearly indicated the event to which the federal funds applied.*

**Auditors' Response:** We do not disagree there was a trail of documentation available regarding this expenditure. We did observe an invoice between the Board and the Clean Fuels Foundation. There was not, however, a signed written agreement between the parties, prior to the conference, to ensure the funds were used as intended by the Board. An invoice does not ensure compliance with the Board's intent.

#### 3. Travel Expense Reimbursements

The Nebraska Accounting System (NAS) Manual, CONC-005, Travel Expense Policies, Section 5 states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. 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."

NAS Manual, CONC-005, Travel Expense Policies, Section 4 states, "It is DAS Accounting policy that a person must be more than 60 miles from his or her workplace in order to be eligible for lodging. We realize there may be reasons to pay for lodging for distances less than 60 miles. Such reasons include, but are not limited to, work requirements, medical conditions or weather; in those instances the reason must be clearly stated on the disbursement document."

## NEBRASKA ETHANOL BOARD

### COMMENTS AND RECOMMENDATIONS

#### 3. Travel Expense Reimbursements (Concluded)

We noted the following:

- There was not adequate documentation to substantiate meal expenses for one of four expense reimbursement requests tested. The meal log did not specifically identify each meal/food cost, but instead included only one total cost for the day. The document included seven days of meals totaling \$127. The meal log is required to provide this information under the State's accountable plan.
- We noted one of four expense reimbursement requests tested reimbursed an unreasonable lodging expense. A Board staff member stayed overnight in Omaha, Nebraska on March 11, 2002. Omaha is less than 60 miles from his workplace and there was no documentation to support the overnight stay. The cost of the lodging was \$83.

If agencies do not follow the State's accountable plan, the reimbursements to employees could become taxable income under Internal Revenue Service guidelines. In addition, there is an increased risk of loss or misuse of State funds without adequate procedures to ensure amounts claimed for lodging reimbursements are reasonable and in accordance with the State's guidelines.

We recommend the Board implement procedures to ensure reimbursement for meals is in accordance with the State's accountable plan. We also recommend the Board implement procedures to ensure reimbursement for lodging is in accordance with the State's guidelines.

*Board's Response: The Board provided documentation for the expenses examined. The Board provided written documentation of efforts to encourage Board member compliance with the State's accountable plan. The Board provided documentation of the rationale for an employee incurring lodging expenditures for an event within 60 miles from his workplace. The Board will continue efforts to more precisely document this information on reimbursement forms.*

*Board's Overall Response: The Board will review recommendations at a public meeting to be convened on May 30, 2003. The Board will consider adopting operational changes that more clearly provide documentation as requested. The Board contends that operational efficiencies do not necessarily result from the adoption of the recommendations contained in the audit report and that in fact they may detract from the agency's primary role and mission as defined in statute.*

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## NEBRASKA ETHANOL BOARD

### INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities and each major fund of the Nebraska Ethanol 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 opinions 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 Ethanol Board, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and each major fund of the State that is attributable to the transactions of the Nebraska Ethanol Board. They do not

purport to, and do not, present fairly the cash balances of the governmental activities and each 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of the Nebraska Ethanol Board, 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 April 10, 2003, on our consideration of the Nebraska Ethanol 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, except for that portion marked "unaudited," on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The 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.

April 10, 2003



Assistant Deputy Auditor

## NEBRASKA ETHANOL BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Ethanol Board's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Ethanol 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 Ethanol 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 taxes and Federal grants.

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 – No component units for the Board were identified.

**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.

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 Board currently has no proprietary funds.

## NEBRASKA ETHANOL BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiduciary fund statements provide information about financial relationships in which the Board acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. 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 schedules of Transfers from Ethanol Production Incentive Fund to Highway Trust Fund and Corn and Grain Sorghum Checkoff Received by the Department of Agriculture. This information is provided to address certain specific needs of various users of the report.

#### **BASIS OF ACCOUNTING**

The Nebraska Ethanol 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.

#### **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) increased 33 percent.

NEBRASKA ETHANOL BOARD

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

(Continued)

	Governmental Activities		% Change
	2002	2001	
Restricted	\$ 4,650,881	\$ 3,218,865	44%
Unrestricted	525,573	677,678	-22%
Total Net Assets	\$ 5,176,454	\$ 3,896,543	33%

The increase in net assets is a result of the increase in the Ethanol Production Incentive Fund. Net assets in this fund increased \$1,432,016 during the year. The increase in the fund is a result of two major factors. First, the amount transferred out of the Ethanol Production Incentive Fund decreased by approximately \$6.8 million dollars in fiscal year 2002. The main reason for the decrease was due to the end of the timeframe for ethanol producers to receive the tax credits for gallons produced under Neb. Rev. Stat. Section 66-1344 R.S.Supp., 2002. The original timeframe for the tax credits ended December 31, 2000. There was a significant drop in the amounts transferred after that time. Additionally, the amount transferred into the Ethanol Production Incentive Fund from the General Fund per Neb. Rev. Stat. Section 66-1345.04 R.S. Supp., 2002 decreased from \$5 million in fiscal year 2001 to \$1.5 million in fiscal year 2002. Other changes related to the significant change in the fund balances include the amount of interest received on the fund. Since the fund balance was higher in fiscal year 2001, more interest was earned on the fund in that fiscal year. In fiscal year 2002, the interest earned on the fund decreased over \$275,000.

**Governmental Activities**

Receipts for the Board’s governmental activities decreased 31 percent, while expenses increased 6 percent.

(Continued on Next Page)

NEBRASKA ETHANOL BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		% Change
	<u>2002</u>	<u>2001</u>	
<b>RECEIPTS:</b>			
Program Receipts:			
Operating Grants & Contributions	\$ 231,680	\$ 500,040	-54%
General Receipts:			
Motor Vehicle Fuel Taxes	361,686	363,000	0%
Investment Interest	30,652	43,249	-29%
Miscellaneous Income	367	823	-55%
Total Receipts	<u>624,385</u>	<u>907,112</u>	<u>-31%</u>
<b>DISBURSEMENTS:</b>			
Economic Development and Assistance	<u>627,558</u>	<u>593,599</u>	<u>6%</u>
Total Disbursements	<u>627,558</u>	<u>593,599</u>	<u>6%</u>
Excess (Deficiency) before Other Financing Sources and Uses			
	(3,173)	313,513	-101%
<b>OTHER FINANCING SOURCES &amp; USES</b>			
	<u>1,283,084</u>	<u>(2,247,773)</u>	<u>157%</u>
Increase (Decrease) in Net Assets	<u>1,279,911</u>	<u>(1,934,260)</u>	<u>166%</u>
Beginning Net Assets July 1	<u>3,896,543</u>	<u>5,830,803</u>	<u>-33%</u>
Ending Net Assets June 30	<u>\$ 5,176,454</u>	<u>\$ 3,896,543</u>	<u>33%</u>

The primary reason for the significant decrease in receipts is due to the decrease in restricted interest income from the Ethanol Production Incentive Fund as noted previously. Also, Other Financing Sources and Uses increased significantly in the Ethanol Production Incentive Fund due to the significant changes in the transfers in and out of the fund as noted previously.

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

As noted earlier, the Nebraska Ethanol Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Certain funds experienced noteworthy changes from the prior year and are highlighted as follows: The Ethanol Production Incentive Fund experienced significant changes as previously noted. The USDA Federal Fund also experienced significant changes. The Federal funds were fully expended during the fiscal year. Disbursements increased over \$53,000. The Federal funds were spent on specific projects under contracts.



NEBRASKA ETHANOL BOARD

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

**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 Ethanol Board.

NEBRASKA ETHANOL BOARD  
**STATEMENT OF NET ASSETS**  
**ARISING FROM CASH TRANSACTIONS**

June 30, 2002

	<b>GOVERNMENTAL  ACTIVITIES  TOTAL  (Memorandum  Only)</b>
<b>Assets</b>	
Cash in State Treasury	\$ 5,175,995
Deposit with Vendors	459
	\$ 5,176,454
<b>Net Assets</b>	
Restricted for:	
Ethanol producer tax credits	\$ 4,650,881
Unrestricted	525,573
	\$ 5,176,454

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

NEBRASKA ETHANOL BOARD  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
For the Fiscal Year Ended June 30, 2002

	<b>GOVERNMENTAL ACTIVITIES</b>
Disbursements:	
Function: Economic Development and Assistance	
Personal Services	\$ 250,150
Operating	341,128
Travel	33,731
Capital Asset Purchases	2,549
Total Disbursements	627,558
Program Receipts:	
Operating Grants & Contributions	231,680
Net Program Receipts (Disbursements)	(395,878)
General Receipts and Other Financing Sources & Uses:	
Motor Vehicle Fuel Taxes	361,686
Unrestricted Investment Interest	30,652
Miscellaneous Income	367
Other Financing Sources & Uses	1,283,084
Total General Receipts and Other Financing Sources & Uses	1,675,789
Change in Net Assets	1,279,911
Net Assets July 1, 2001	3,896,543
Net Assets June 30, 2002	\$ 5,176,454

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

NEBRASKA ETHANOL BOARD  
**STATEMENT OF ASSETS AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**

June 30, 2002

	<u>Major Funds</u>		<b>Total Governmental Funds (Memorandum Only)</b>
	Agricultural Alcohol Fuel Tax Fund 2160	Ethanol Production Incentive Cash Fund 2602	
<b>Assets</b>			
Cash in State Treasury	\$ 525,114	\$ 4,650,881	\$ 5,175,995
Deposit with Vendors	459	-	459
<b>Total Assets</b>	<b>\$ 525,573</b>	<b>\$ 4,650,881</b>	<b>\$ 5,176,454</b>
<b>Fund Balances</b>			
Reserved for:			
Postage	\$ 459	\$ -	\$ 459
Unreserved	525,114	4,650,881	5,175,995
<b>Total Fund Balances</b>	<b>\$ 525,573</b>	<b>\$ 4,650,881</b>	<b>\$ 5,176,454</b>

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

NEBRASKA ETHANOL BOARD  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2002

	<b>Major Funds</b>			<b>Total Governmental Funds (Memorandum Only)</b>
	Agricultural Alcohol Fuel Tax Fund NAS Fund 2160	Ethanol Production Incentive Cash Fund 2602	USDA Federal Grant NAS Fund 4601	
<b>RECEIPTS:</b>				
Motor Vehicle Fuel Taxes	\$ 361,686	\$ -	\$ -	\$ 361,686
Federal Grants & Contracts	-	-	82,500	82,500
Miscellaneous:				
Investment Interest	30,652	149,180	-	179,832
Other Miscellaneous	367	-	-	367
<b>TOTAL RECEIPTS</b>	<b>392,705</b>	<b>149,180</b>	<b>82,500</b>	<b>624,385</b>
<b>DISBURSEMENTS BY FUNCTION:</b>				
Economic Development and Assistance	522,587	-	104,971	627,558
<b>TOTAL DISBURSEMENTS</b>	<b>522,587</b>	<b>-</b>	<b>104,971</b>	<b>627,558</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(129,882)	149,180	(22,471)	(3,173)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	248	-	-	248
Deposits from Common Fund	-	3,405,285	-	3,405,285
Operating Transfers In	-	1,500,000	-	1,500,000
Operating Transfers Out	-	(3,622,449)	-	(3,622,449)
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>248</b>	<b>1,282,836</b>	<b>-</b>	<b>1,283,084</b>
Net Change in Fund Balances	(129,634)	1,432,016	(22,471)	1,279,911
FUND BALANCES, JULY 1, 2001	655,207	3,218,865	22,471	3,896,543
FUND BALANCES, JUNE 30, 2002	<u>\$ 525,573</u>	<u>\$ 4,650,881</u>	<u>\$ -</u>	<u>\$ 5,176,454</u>

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

NEBRASKA ETHANOL 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 Ethanol Board are on the basis of accounting as described in the Nebraska Accounting System Manual.

**A. Reporting Entity**

The Nebraska Ethanol 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 the Nebraska Ethanol Board. No component units were identified. The Nebraska Ethanol Board 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 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 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

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board reported the following general receipts: Taxes and Other Financing Sources.

**Fund Financial Statements.** The fund financial statements provide information about the Board's funds. 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 funds:

**Agricultural Alcohol Fuel Tax Fund.** This fund is the Board's primary operating cash fund. The primary revenue of the fund comes from the 1.25 cents per gallon check-off on non-highway fuel tax refunds. The fund is used for the operations of the Board.

**Ethanol Production Incentive Cash Fund.** This fund is used to pay the tax credits authorized in statutes per gallon of ethanol produced in the State. The money in the fund is generated from general fund appropriations from the Legislature and corn and grain sorghum excise taxes collected by the Department of Agriculture. The tax is one-half cent per bushel for corn and one-half cent per hundredweight for grain sorghum sold or delivered in the State.

**United States Department of Agriculture (USDA) Federal Grant Fund.** This fund was created by the Board to account for Federal monies received and disbursed in furtherance of the Board's objectives.

**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 requires the Agency-wide fund financial statement to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board, except the USDA Federal Grant Fund, 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.

**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.



NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid 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 Board's policy to use unrestricted resources first, then restricted 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. The assets of the Ethanol Production Incentive Cash Fund are restricted since they are only used for purposes set by enabling legislation.

**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 reserved for 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 ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **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 Ethanol Board's financial statements.

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **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.

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 Board 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 \$8,304 and the Board contributed \$12,954.

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Transfers**

The Ethanol Production Incentive Cash Fund received an operating transfer from the State General Fund in the amount of \$1,500,000 pursuant to Neb. Rev. Stat. Section 66-1345.04 R.S. Supp., 2002.

The Ethanol Production Incentive Cash Fund also included an operating transfer to the Highway Trust Fund in an amount calculated by the Department of Revenue and reported to the State Treasurer for the amount of motor fuel tax that was not collected due to the ethanol credits provided in Neb. Rev. Stat. Section 66-1344, R.S.Supp., 2002.

6. **Deposits From Common Fund**

The Ethanol Production Incentive Cash Fund is common to the Board and to the Department of Agriculture. The Department of Agriculture collects one-half cent per bushel of corn and one-half cent per hundredweight of grain sorghum sold or delivered in the State and deposits it to this fund.

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 Board implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Board'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 Board 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 Board.

NEBRASKA ETHANOL BOARD  
**SUPPLEMENTARY INFORMATION**  
**MAJOR SPECIAL REVENUE FUNDS**  
**BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2002

Agricultural Alcohol Fuel Tax Fund 2160				
BUDGETED AMOUNTS				VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
ORIGINAL	FINAL	ACTUAL AMOUNTS		
PROGRAM:				
516 - Ethanol Board	\$ 628,950	\$ 628,950	\$ 522,587	\$ 106,363
TOTAL DISBURSEMENTS	\$ 628,950	\$ 628,950	\$ 522,587	\$ 106,363

USDA Federal Grant Fund 4601				
BUDGETED AMOUNTS				VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
ORIGINAL	FINAL	ACTUAL AMOUNTS		
PROGRAM:				
516 - Ethanol Board	\$ 107,500	\$ 107,500	\$ 104,971	\$ 2,529
TOTAL DISBURSEMENTS	\$ 107,500	\$ 107,500	\$ 104,971	\$ 2,529

See Notes to Supplementary Information

# NEBRASKA ETHANOL BOARD

## 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 Board's legally adopted annual budget amount. The Board's budgetary comparison schedules include the Agricultural Alcohol Fuel Tax Fund and the USDA Federal Grant Fund. A budgetary comparison could not be shown for the Ethanol Production Incentive Cash Fund as there are no disbursements budgeted from this 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 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 schedules only report total disbursements *by program*.

NEBRASKA ETHANOL BOARD

**NOTES TO SUPPLEMENTARY INFORMATION**

(Continued)

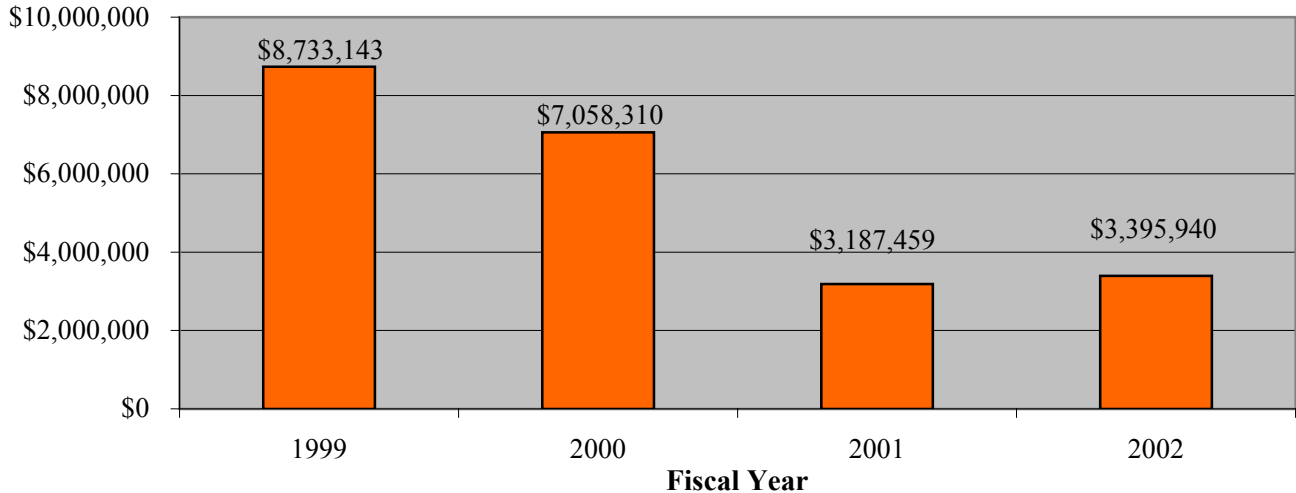
Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the Board's Agricultural Alcohol Fuel Tax Fund and USDA Federal Grant 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. Appropriations for programs funded in whole or in part from the Board's USDA Federal Grant Fund may be increased to the extent receipts of the fund exceed the original budget estimate.

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

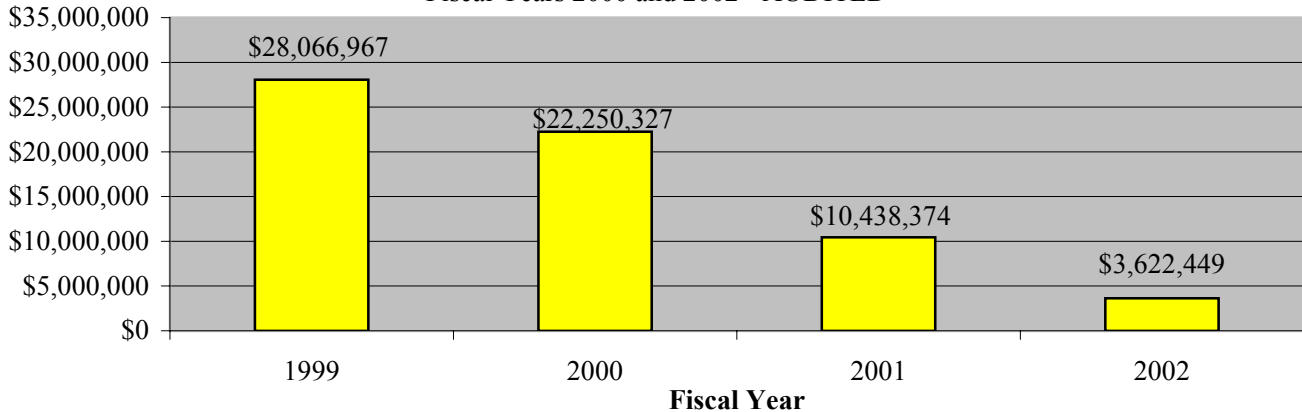
NEBRASKA ETHANOL BOARD

**Corn and Grain Sorghum Ethanol Checkoff Received by the Department of Agriculture**  
 Fiscal Year 1999, 2000, and 2001 - UNAUDITED  
 Fiscal Year 2002 - AUDITED



Note: Pursuant to Neb. Rev. Stat. Section 66-1345.01 R.S.Supp., 2002, for any sale or delivery of corn or grain sorghum on or after October 1, 2001, and before October 1, 2009, the tax is one-half cent per bushel for corn and one-half cent per hundredweight for grain sorghum. The Department of Agriculture is responsible for collecting and enforcing the tax. The tax is credited to the Ethanol Production Incentive Fund.

Fiscal Years 1999 and 2001 - UNAUDITED  
 Fiscal Years 2000 and 2002 - AUDITED



Note: Neb. Rev. Stat. Section 66-1344 R.S.Supp., 2002, establishes the ethanol tax credits for the production of ethanol. The credits are in the form of a nonrefundable, transferable motor vehicle fuel tax credit certificate. The producers transfer these certificates to oil wholesalers who can use the credit to reduce the motor vehicle fuel tax due to the Department of Revenue. In exchange for the tax credit, the ethanol producers generally receive cash compensation from the oil wholesaler. Neb. Rev. Stat. Section 66-1345 R.S.Supp., requires the Department of Revenue to notify the State Treasurer at the end of each calendar month, the amount of motor fuel tax that was not collected in the preceding calendar month due to the credits provided in section 66-1344. The State Treasurer shall transfer from the Ethanol Production Incentive Fund an amount equal to such credits.



# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA ETHANOL 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 Ethanol Board as of and for the year ended June 30, 2002, and have issued our report thereon dated April 10, 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 Ethanol 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 Ethanol Board'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 a certain immaterial instance of noncompliance that we have reported to the management of the Nebraska Ethanol Board in the Comments Section of this report as Comment Number 3 (Travel Expense Reimbursements).

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Ethanol 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Ethanol Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Federal Program Disbursements) and Comment Number 2 (Inadequate Documentation).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Numbers 1 (Federal Program Disbursements) and Comment Number 2 (Inadequate Documentation) to be material weaknesses. We also noted another matter involving internal control over financial reporting that we have reported to the management of the Nebraska Ethanol Board in the Comments Section of the report as Comment Number 3 (Travel Expense Reimbursements).

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.

*Pat Reding, CPA*

Assistant Deputy Auditor

April 10, 2003