

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

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on September 2, 2005

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

BACKGROUND

Every person distributing or selling cigarettes at wholesale in the State of Nebraska is required to pay a special privilege tax to the Nebraska Department of Revenue. This is accomplished by requiring all packages of cigarettes sold within the State to be stamped.

The tax on each package of cigarettes containing not more than twenty cigarettes was thirty-four cents until September 30, 2002. Beginning October 1, 2002 the tax increased to sixty-four cents on each package. For each package containing more than twenty cigarettes an additional tax is required. The additional tax is one-twentieth of the tax on the first twenty cigarettes for each cigarette over twenty in the package.

The Department deposits the tax with the State Treasurer, who distributes the proceeds as required by State Statute. The tax was distributed to the following funds during the fiscal year ended June 30, 2005:

- State of Nebraska General Fund
- Nebraska Outdoor Recreation Development Cash Fund
- Department of Health and Human Services Finance and Support Cash Fund
- Building Renewal Allocation Fund
- Nebraska Capital Construction Fund
- Municipal Infrastructure Redevelopment Fund
- Information Technology Infrastructure Fund
- City of the Primary Class Development Fund
- City of the Metropolitan Class Development Fund

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

EXIT CONFERENCE

An exit conference was held August 3, 2005 with the Nebraska Department of Revenue to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

NAME	TITLE
Ron Gottula	Finance and Accounting Manager
Janet Lake	Motor Fuel Administrator
Myle Nguyen	Accountant
Karen Rowley	Motor Fuels Audit Manager
Tim Young	Personnel Administrator

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NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
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Nebraska Department of Revenue
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
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We have examined the accompanying Schedule of Cigarette Tax Receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2005. The Nebraska Department of Revenue's management is responsible for the schedule of cigarette tax receipts. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
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Tim Channer, CPA
Asst. Deputy Auditor
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of cigarette tax receipts and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Mary Avery
SAE/Finance Manager
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Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

In our opinion, the schedule referred to above presents, in all material respects, the cigarette tax receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Mark Avery, CPA
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In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005, on our consideration of the Nebraska Department of Revenue's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters as related to cigarette tax receipts. The purpose of that report

is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Nebraska Department of Revenue and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

August 3, 2005

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
SCHEDULE OF CIGARETTE TAX RECEIPTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Sales Per Month (Note 3)

July 2004	\$	5,667,263
August 2004		6,519,232
September 2004		5,535,144
October 2004		5,303,505
November 2004		5,402,579
December 2004		5,279,836
January 2005		4,684,255
February 2005		5,462,274
March 2005		5,195,643
April 2005		4,675,918
May 2005		6,254,702
June 2005		<u>6,419,296</u>
Net Cigarette Tax Receipts	\$	<u><u>66,399,647</u></u>

See Notes to the Schedule.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of cigarette tax receipts for the Nebraska Department of Revenue was obtained directly from the NIS. NIS records accounts receivable as transactions occur. As such certain revenues are recorded when earned, regardless of the timing of related cash flows.

The Department had no accounts receivable at June 30, 2005 related to cigarette taxes.

2. State Agency

The Nebraska Department of Revenue is a State agency established under and governed by the laws of the State of Nebraska. As such, the Nebraska Department of Revenue is exempt from State and Federal income taxes. The schedule includes only the cigarette tax receipts of the Nebraska Department of Revenue.

The Nebraska Department of Revenue is part of the primary government for the State of Nebraska.

3. Sales Discounts Allowed

For the period July 1, 2002 through September 30, 2002, wholesale dealers of cigarettes were allowed a discount of three and four-tenths percent of the face value of the cigarette tax as commission for affixing and canceling cigarette stamps in accordance with Neb. Rev. Stat. Section 77-2608 R.S.Supp., 2002. Beginning October 1, 2002 and continuing through September 30, 2004, the commission is one

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE SCHEDULE
(Continued)

3. Sales Discounts Allowed (Concluded)

and seven-tenths percent of the face value of the tax as per Neb. Rev. Stat. Section 77-2608 R.S.Supp., 2003. Starting October 1, 2004 the commission will be one and eighty-five hundredths percent. The total amount of sales discounts for the fiscal year was \$1,148,315.

4. Refund/Credits

Refunds and credits are allowed on the sale of cigarette tax stamps for the following reasons:

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

The total amount of refunds and credits allowed on the sale of cigarette tax stamps for the fiscal year was \$725,438.

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
EXAMINATION OF THE SCHEDULE OF CIGARETTE TAX
RECEIPTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Nebraska Department of Revenue
Lincoln, Nebraska

We have examined the accompanying Schedule of cigarette tax receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2005, and have issued our report thereon dated August 3, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Revenue's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of cigarette tax receipts, and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule being examined 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue's schedule of cigarette tax receipts, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Nebraska Department of Revenue and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

August 3, 2005

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

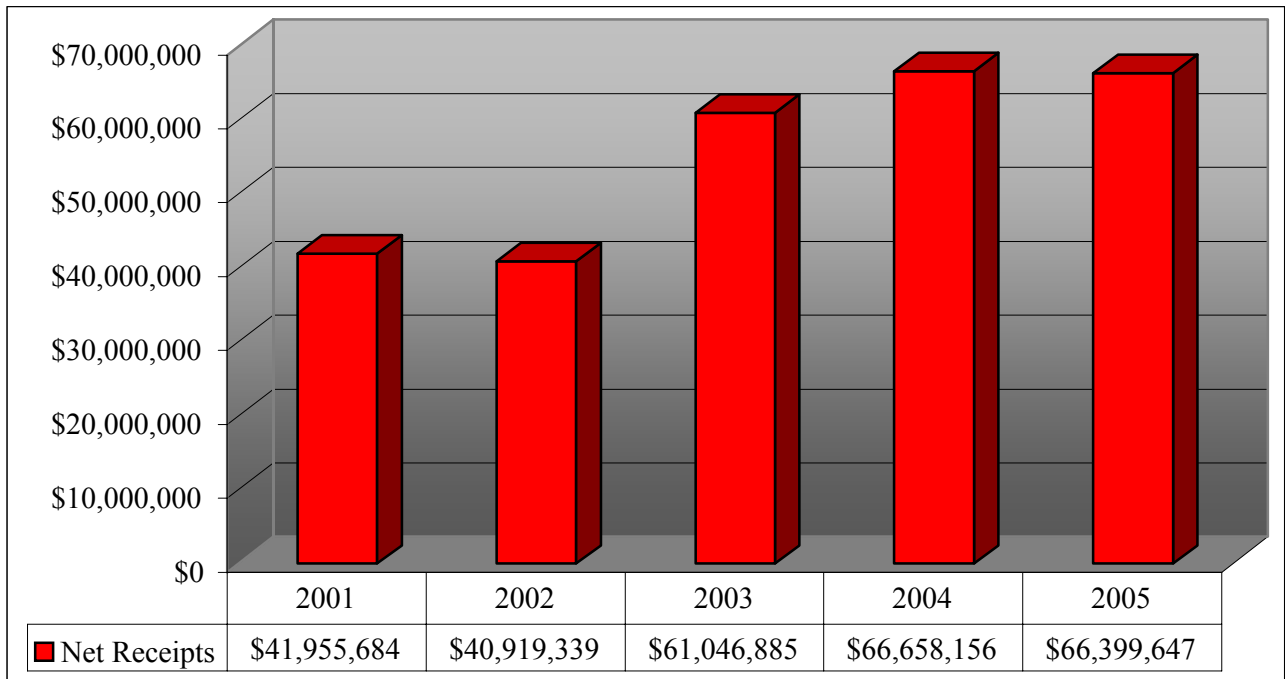
STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of cigarette tax receipts. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of cigarette tax receipts, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS
NET RECEIPTS
 FISCAL YEARS ENDED JUNE 30, 2001 THROUGH 2005

	Fiscal Year				
	2001	2002	2003	2004	2005
Tax Rate Per Pack	\$ 0.34	\$ 0.34	\$ 0.34/0.64*	\$ 0.64	\$ 0.64
Gross Revenue	\$ 43,432,385	\$ 42,359,564	\$ 62,339,525	\$ 67,810,942	\$ 67,547,962
Less: Wholesaler's Discount (Allowance)	\$ 1,476,701	\$ 1,440,225	\$ 1,292,640	\$ 1,152,786	\$ 1,148,315
Net Receipts	\$ 41,955,684	\$ 40,919,339	\$ 61,046,885	\$ 66,658,156	\$ 66,399,647

*As per Neb. Rev. Stat. Section 77-2602 R.S.Supp., 2002, cigarette tax increased from 34 cents to 64 cents on October 1, 2002.



This information was accumulated from previous fiscal year audited schedules and the current schedule.

NEBRASKA DEPARTMENT OF REVENUE
 CIGARETTE TAX RECEIPTS
CIGARETTE TAX RATES FOR ALL STATES
 As of January 1, 2005

STATE	TAX RATE (¢ per Pack)	RANK	STATE	TAX RATE (¢ per Pack)	RANK
Alabama (1)	42.5	39	Nebraska	64	27
Alaska	160	5	Nevada	80	23
Arizona	118	13	New Hampshire	52	36
Arkansas (2)	59	23	New Jersey	240	2
California	87	21	New Mexico	91	20
Colorado	87	22	New York (1)	150	8
Connecticut	151	6	North Carolina	5	50
Delaware	55	32	North Dakota	44	38
Florida	33.9	44	Ohio	55	32
Georgia	37	41	Oklahoma	103	15
Hawaii	140	10	Oregon	118	13
Idaho	57	30	Pennsylvania	135	11
Illinois (1)	98	19	Rhode Island	246	1
Indiana	55.5	31	South Carolina	7	49
Iowa	36	42	South Dakota	53	35
Kansas	79	24	Tennessee (1) (2)	20	45
Kentucky (2)	3	51	Texas	41	40
Louisiana	36	42	Utah	69.5	26
Maine	100	16	Vermont	119	12
Maryland	100	16	Virginia (1) (3)	20	45
Massachusetts	151	6	Washington	142.5	9
Michigan	200	3	West Virginia	55	32
Minnesota	48	37	Wisconsin	77	25
Mississippi	18	47	Wyoming	60	28
Missouri (1)	17	48	Dist. of Columbia	100	16
Montana	170	4			
			U. S. Median	69.5	

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

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC \$1.50; TN, 1¢; and VA, 2¢ to 15¢
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and .05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.
- (3) Tax rate is scheduled to increase to \$0.30 per pack on July 1, 2005.